

THE INDONESIAN QUARTERLY

Indonesia and APEC

- Current Events
- Indonesia's Initiative in APEC
- The Changing Attitude of Australia and Indonesia Towards APEC
- Investment and the Asia Pacific Region
- APEC and the Asia Pacific: An ASEAN Perspective
- Regionalism and Its Implications for the Asia Pacific
- US-Japan and China Relations in the Asia Pacific
- DOCUMENT: APEC Economic Leaders' Declaration of Common Resolve



CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES

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The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidhartha, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*," which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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Current Events

An Indonesian View of APEC^{*}

Suhadi Mangkusuwondo

INDONESIA, and ASEAN, joined APEC only with reluctance in 1989. There are several reasons for that, among others:

- a) Concern for erosion of ASEAN (and AFTA); ASEAN does not want to see its cooperation eroded by joining a wider economic grouping.
- b) Concern about APEC becoming a forum for trade negotiation, dominated by big industrial countries, particularly the USA and Japan; ASEAN much prefer the multilateral forum GATT as the forum for trade negotiations.

But in the end, after intensive lobbying, particularly by Australia, ASEAN, including Indonesia, agreed to attend the first ministerial meeting in Canberra, and joined the APEC (Asia Pacific Economic Cooperation). But they insisted on some agreed basic principles for economic cooperation, among others:

- that APEC should not evolve into and become an economic bloc;
- that the interest of members at different

levels of development be taken into account; and

- that trade arrangements adopted by APEC should be GATT-consistent.

Different Approaches to Cooperation

As the APEC process started to gain momentum, one thing became apparent, namely a difference in approach to regional economic cooperation: the Asian evolutionary approach versus the American legalistic and institutional approach. The "Asian" approach is to agree on principles first, then let things evolve and grow gradually, rely on the market to set the pace for economic integration, with minimum government intervention or direction. Governments are to intervene only to facilitate the market driven process of economic integration through trade and investment. The "American" approach is viewed by many in Asia as too legalistic and too institutional. This difference in approach can perhaps be best illustrated by comparing the volume of documents establishing the NAFTA - which someone said is about 2,000 pages long, with the agreement on the AFTA - with only 16 pages.

^{*} Adapted from Luncheon Speech, Center for Asian-Pacific Affairs and the Asia Foundation Conference on "Taking Stock of the Asia-Pacific Economic Agenda", San Francisco, 18 April 1994.

To start with, legally binding commitments covering a wide range of issues, scares many people in Asia -- who resist hasty institutionalisation of economic cooperation. That is the reason why many in Asia still insist that APEC remain a forum for consultation and not a forum for negotiation. This may be a bit unrealistic, but some compromise middle road should be possible where everybody would feel comfortable: gradual emergence of the architecture; give the market a chance to play a greater role; government intervention should be selective and restraint.

On Regional Trade Liberalisation

In our view, while recognising that the open global trade system, as embodied in the GATT, is essential for the attainment of rapid growth of the region, and therefore should be maintained and strengthened, it is however national policies which determine the success or failure of economic development of the developing countries. Therefore, if the goal of APEC cooperation is to sustain the rapid growth of the region, it is crucial that national policies, which rely on unilateral trade and investment liberalisation, be continued. Such unilateral liberalisation measures have been going on in all the Asian developing countries for some time now, and they have proven to be essential for rapid growth of those countries. All these countries at one point in the past have adopted protective inward-looking trade policies. But since 10-15 years ago most of them have adopted outward-looking policies. Even Vietnam and India are joining the group of the East-Asian economies with their market opening policies, and have shown some remarkable success.

The question now is: how could APEC facilitate those unilateral liberalisation, which by its nature are non-discriminatory, are applied on MFN basis, and therefore are entirely GATT-consistent. They also do not require lengthy, costly, and often contentious bilateral negotiations which usually accompany regional or global trade liberalisation schemes. Therefore, I believe that the encouragement of unilateral liberalisation should be an essential part of the APEC process.

A closely related aspect of this argument is that the developing members of APEC, including Indonesia, should be given a chance to catch up with the advanced members, before they can fully participate in negotiated trade and investment liberalisation schemes at the regional Asia-Pacific level.

On Regional Preferential Trading Arrangement

I do not believe that APEC should engage in a scheme of regional preferential trading arrangement. To start an exclusive trade agreement, even if intended to be temporary, would be the first step toward the creation of an economic bloc. Other economic groupings would react by hardening their protective posture, and the process can easily lead to economic confrontation among rival blocs.

There is another reason why Indonesia would not be supportive of the idea of an APEC-wide preferential trading arrangement. This year of 1994 is in a sense unique for Indonesia because it is in the chair both of the NAM as well as for APEC. In the non-aligned movement Indonesia is actively promoting South-South cooperation, aimed

at achieving faster growth of trade, investment, and technical cooperation among developing countries. Therefore, it would be politically difficult for Indonesia to enter into preferential arrangements with industrial countries of the North, excluding many countries of the South from the fast growing markets of this region. A consistent policy for Indonesia would be to promote greater South-South cooperation on the one hand, and on the other to enter into an open regional trade arrangement with countries of the North.

Finally, while our focus of discussion so far has been on trade and investment, Indonesia's main concern is actually on the development of the economy as a whole. While it is true that trade has a crucial role to play, and regional trade in the Asia Pacific is the dynamic part of total trade, nevertheless

one should not forget that rapid growth for developing countries such as Indonesia could not be sustained unless its physical and human resources are developing. It is, therefore, not surprising that Indonesia, as the host country for the next APEC meeting, has put human resource development as the theme for the Jakarta meeting. This has been agreed and supported by the other members. APEC cooperation should thus include these very important elements of cooperation, such as education and training, technology development, development of small and medium enterprises, and promotion of investment in physical infrastructure such as electricity and telecommunication. These should form an integral part of the whole APEC process. In other words, APEC should develop a balanced agenda, taking care of the diverse needs of its members, and in so doing gets the full support of all the member countries.

Problems of Protectionism and Free Trade^{*}

Djisman S. Simandjuntak

The term protectionism is used in this paper to denote an economic policy which in one way or the others seeks to accelerate the growth of emerging industries or to provide an edge in favour of local producers in maturing industries or to defend declining industries by way of imposing barriers on competing import in the

wider sense of the word. Free trade on the other hand does not necessarily mean a complete freedom of producers and traders to sell or buy products or services irrespective of national barriers. A complete removal of barriers against import is rarely adopted in trade policy agenda, however strong the demand may be for a freer trade as is observable in recent years. What is of greater relevance in the real world is, therefore, the degree rather than the existence of barriers

^{*}Revised version of paper presented at the 21st International Small Business Congress, Jakarta-Indonesia, September 18-21, 1994.

to trade. Agenda of liberalisation is also usually much more modest than the establishment of a free trade as taught widely as a model in trade economics.

Since the end of the 1970s a kind of a paradox has been observable in trade policy making. Governments in the developing world have become more friendly to open trade than they were in the 1970s while governments in the developed world have engaged more and more in an increasingly complicated managed trade.

The reasons behind the more positive attitude of developing countries toward freer trade are manifold. China's New Economic Policy with the opening of special economic zones and coastal cities as its core is a discontinuation of central planning which in the 1970s had stumbled on new obstacles as the information intensity of development increased very strongly and diversification of the respective economies got more diversified. In many other developing countries such as Mexico the adoption of a freer trade was originally linked to debt restructuring, though it soon got its own dynamics and became a major program in its own merits. Some other developing countries were faced with a severe resource constraints in the wake of the weakened commodity market in the 1980s and opted for reform program as a matter of necessity. Indonesia belongs to this group and so is Malaysia. Interestingly, liberalisation is contagious in the more positive sense of the word. As more and more developing countries join the bandwagon those who might have intended not to change are faced with the formidable pressure to join as well lest a refusal to swim with the current would make them irrelevant in the global competition.

While the motives differ from one country to another some features are common in the recent reforms undertaken by developing countries. Among the most important among them are: (i) A more accommodative attitude towards foreign investment as reflected in a less discriminatory policy on entry and performance requirements; (ii) A dissociation from the most distorting elements of trade policy, especially restrictive import licencing by converting them into tariff protection; (iii) A rationalisation of tariff in the sense of a reduced rate, a narrowed range or dispersion and a simplified classification; and (iv) A less cumbersome administration of rules and regulation. To a varying degree a soft bias in favour of export is contained in the new policy, replacing the strong anti-export biases which were common to the strategy of import substitution of earlier decades.

The trends of trade policy in the developed world is less clear. On the one hand tariff rates in this part of the world went further down in the aftermath of the Tokyo Round though the problems of tariff peaks remain unsolved. Ironically, these tariff peaks are found in items which are of direct relevance to the export of developing countries such as textile and apparel, footwear and resource-based manufactures. On the other hand, the use of non-tariff barriers has tended to increase as reflected in the number of countervailing and anti-dumping cases, especially in the United States and Western Europe. Gray area measures, notably voluntary export restraint and lately also voluntary import expansion have been creeping to new products. Governments are quite smart in innovating new instruments as their freedom to employ existing measures is subject to a tighter control. Though the link to

protectionist intention is difficult to detect or may even be non-existent, the fact remains that a growing fraction of trade is now confronted with the issues of deep integration. Behind-border measures such as environmental standards and workers' rights have entered into the agenda of trade talks and negotiations.

Unilateral initiatives constitute only a component in the contemporary quest for freer trade. Regional initiatives such as the establishment of the European Union, ASEAN Free Trade Area (AFTA), North American Free Trade Agreement (NAFTA), Australia-New Zealand Closer Economic Relation and Trade Agreement (ANZCERTA), have also produced similar effects in freeing trade from artificial barriers. APEC free trade is indeed being considered by leaders of this vast area. Should this idea materialise -- the target date is 2020 -- it would virtually complete the formal regionalisation of trade among the world's major economies.

Of great relevance is also the successful conclusion of the Uruguay Round. For the first time, trade in agriculture and a number of important services will be guided by the principles and rules of the GATT. Textile and apparel which until now have been the single most important victim of a flagrant discrimination against exporters from developing countries will gradually be freed from quantitative restrictions, though tariff rates in these categories will remain the highest. The strong linkages between trade on the one hand and investment and the protection of intellectual properties on the other are now formally recognised. Furthermore, GATT 1994 and the related WTO promise a number of improvement regarding disciplines in anti-dumping, countervailing, tech-

nical standards and regulation and dispute settlement. Time will tell whether or not GATT 1994 and WTO can ever work as expected. Nevertheless, the fact that such a large number of countries, including developing countries have signed the agreements is an accomplishment in itself.

Technology Progress and Freer Trade

There is no guarantee that the current mood for a freer trade will sustain for a long time. History tell us a great deal about the cycle of trade policy as economic circumstances keep changing. The political landscape may also change unexpectedly as they have changed over the years. A takeover by socialists or social democrats in Europe for instance is likely to have a constraining impact upon the speed of liberalisation. Once a policy reversal occurs in a certain country it may sweep the world domino-wise. However, the likelihood of such a reversal may have lessened for a number of reasons.

One major factor behind integration of the world economy is technology progress. Advances in information technology, telecommunication, manufacturing technology, and rapid transportation have not only enhanced the tradeability of goods and services but also made protection barriers less and less effective and international division of labour more promising in terms of the mutuality of benefits to the parties involved. Under these circumstances activity-based cross-border division of labour become feasible economically, giving impetus to a progressive intra-industry trade or even what may be called "intra-product" trade. Actors of international trade and production, the

multinationals, are forced to adjust. The logic of the new competition requires a flexible organisation. Decentralisation is needed more and more, not only in terms of a dispersed decision making centres, but also in terms of the allocation of competencies between different markets. As a result, trade between related firms gains in importance. Approximately one third of world trade is now occurring between related firms. The 37,000 multinationals and their 200,000 subsidiaries have a combined sales of around \$ 5 trillion or far greater than world trade in the traditional sense. Since human capital is increasingly important relative to physical capital in an enterprise, exploiting to the utmost the return to this capital will also work more and more as a force for deeper integration.

As more and more multinationals, including the ones originating in developing countries, are entering the global competition, sticking to a protectionist policy is likely to be more and more burdensome. In fact, economic integration in the Asia Pacific is said to have had more to do with the converging interest of enterprises rather than trade liberalisation initiatives. This may sound too optimistic as far as the durability of open trade policy is concerned. Nevertheless, governments are likely to find it more and more costly to restrict trade and other types of exchanges between economies.

The Interests of Small and Medium Enterprises

Studies on trade policy have traditionally been centred on welfare impacts. Unit of analysis is either an economy as a whole or an industry. Costs to consumer are usually weighed against benefits to producers and

government. The more recent strategic trade theory is also preoccupied with similar effects although the approach followed is different. The negative impacts of protection on the competition in an industry as measured for instance by the level of concentration are not adequately addressed. Interestingly, findings about positive costs of protection have not dissuaded governments from using trade policy measures with the stated objective of fostering the growth of local production.

Empirical testing is badly needed to understand the relationship between protection and the structure of an industry as regards the relative position of small and medium enterprises. Pending such an investigation one has to rely on an intuitive judgement. There are a number of apriori reasons to believe that an increase in the level of protection is more likely to be harmful than beneficial to small and medium enterprises.

First, an increase in the level of protection which effectively protect local production against import is cost-inflating. The increase in costs comprises not exclusively the protection incidence. Cost of compliance is also likely to be high, particularly under a corrupt bureaucracy. If it is granted to an upstream industry the effect is bound to be felt in all downstream industries unless there is a compensation scheme in place. Yet, upstream industry is more likely to be populated by a small number of large firms while downstream industries usually host a big number of small finishing manufacturers. The greater the reliance of the downstream industries on export, the more harmful the protection of upstream industry will be. Iron and steel industry, chemical industry, non-ferrous metal appear to be good examples in which small manufacturers are highly prob-

able to be hit by any protection of a large enterprise in the upstream industry. Yet, there is more to this chain of effect than cost inflation. Protection necessarily means a narrowed choice for procurement. If the protection takes the form of import prohibition or certain restrictive licensing as practiced widely in Indonesia before 1986, firms in the downstream of an industry are forced to enter an asymmetrical relation with the upstream industry. Even today, certain products can only be imported to Indonesia by licenced importer who at the same time manufactures the product locally.

Trade policy is usually discriminatory. Uniform protection is non-existent in the real world. Certain sectors are treated more favourably than others. Given that the size of enterprises within an industry is rarely equal, not even the cleanest administration of protection can secure that the same level of protection works neutrally between firms. Larger enterprises are bound to profit more from a given level of protection. Furthermore, a lock-in system applies to many industries. The textile and apparel industry of Indonesia, for instance, are concentrated in only three locations. Hence, protection has a tendency to give more benefits to a certain area while imposing certain costs to the rest of an economy.

The danger of conglomeration is also inherent in protectionism. A government who promotes local production excessively implicitly provides a fertile soil for conglomeration. This is what happened to Indonesia's automotive industry. Car manufacturers are required to engage in progressive manufacturing in accordance with a mandatory time table. While trying to comply the car manufacturers cannot find enough

component manufacturers and decide to diversify. This propensity to conglomerate is virtually irresistible, if trade policy induces certain business to expand rapidly before the network of supporting businesses is at place. Yet, being supplier of a large manufacturer is one of the most realistic paths for small and medium businesses to grow. Ironically, protection tends to make it less viable. Though not necessarily representative, experience of conglomeration in the form of "combination" in centrally planned economies tend to confirm the suspicion that protection has the potential to drive out small and medium businesses from industries adjacent to the protected one.

While empirical evidence is yet to be collected, freer trade does seem to be a better trade when it comes to the promotion of small and medium businesses. The recent robust recovery in the American economy is widely attributed to vital small and medium enterprises. German and Japanese performances in world trade have also been widely associated with a superior network of suppliers consisting of small and medium businesses. Without much ado about promoting large enterprises Taiwan has also emerged as a major player in world trade. The link between freer trade and a healthy growth is so small and medium businesses are yet to be discovered. Nevertheless, the intensified competition resulting from freer trade can be an important link. As competition in an industry gets tougher, firms are forced to rationalise their product or activity portfolio. Considering that the competitiveness of a firm varies from one activity to another, tougher competition requires the concentration of limited resources on activities or products where the firm's competitiveness is highest.

Freer trade is certainly not a sufficient condition for small and medium businesses to prosper. This is particularly true for industries in which market is global in nature. In these types of industries large multinationals have established a number of advantages emanating from being "first movers". They are also usually the best recruiters of managerial, research and technical personnel. Governments usually wish them to come into their own respective economies, in some cases even with extra incentives. Ironically, small and medium businesses do not enjoy a high priority in the investment and trade policies of many governments. Whatever the reason, a certain minimum

amount of capital is usually required for foreign investment. One of the reasons mentioned is related to the worry about the possibility that an influx of small and medium foreign investors would drive local entrepreneurs out of business. Unfortunately, the extent to which this worry is valid can only be verified through empirical studies. Yet, the fact that a booming multinationals' investment usually is accompanied by a booming large local business provides a reason to expect that something similar would occur should foreign small enterprises enter an economy in big scale, provided that supporting physical and social infrastructures are at place.

Openness and Political Culture*

Amir Santoso

OPENNESS was one of the topics taken up in the Presidential Address on 16 August 1994 on the eve of the 49th commemoration of the Proclamation of Indonesia's Independence. This topic is very interesting since the interpretation of openness in society has been confusing so far. On the one hand, there are people who are aware that openness should be accompanied by limiting beacons, on the other hand there are those who use this issue on the basis of their own taste.

We agree with the presidential address that openness does not mean freedom without limit but refers to constitutional freedom. In democracy, having diverse opinions is legal and constitutional. It is wrong when differing views lead to protracting conflicts that will threaten national unity and integrity.

Frequently the question as to what is considered as endangering the unity and integrity of the nation becomes the subject of polemics. Perhaps, something which is considered by some people as a danger, may be considered as a necessity for the develop-

*Translated from *Suara Karya* daily, 19 August 1994.

ment of democracy by others. However, it could happen that what is considered to be conducive to democratisation turns out to be something which is only for the interests of a certain group, not for the sake of society as a whole.

Consequently having common perception of openness and freedom has become imperative, though it is not easy to achieve. Because politics does not only relate to the Constitution but it concerns culture or tradition as well. The Constitution may as well justify openness or differing opinions and allow anyone to express one's view even though a differing one. But political culture may have its own procedure or way of expressing one's views. Hence even though the Constitution is a guarantee in this regard, if the way to express one's view is not conventional or not in compliance with tradition, the differing view may be unacceptable.

Therefore, in order to have a common perception of openness, not only an understanding of the existing political system, but also comprehension of the political culture, is called for. Because the prevailing political culture is very decisive in the interpretation of openness, and in this regard, in any country, the political culture of the elite group is usually the predominant one. Accordingly, an appropriate understanding of the "what and how" of the traditional custom, attitude and behaviour of the predominant elites is necessary.

If various views have emerged lately questioning the seriousness of the Indonesian government in the implementation of openness, it may be due to the lack of comprehension about the political culture mentioned above. Our political culture does not forbid expressing differing views. Everybody

may express differing views, but it should be done in accordance with the etiquette prevailing in our culture. The criterion of this "etiquette" will no doubt be different from that of other nations. What is a good etiquette in our country may be considered as a lack of openness in the context of another culture. On the other hand, what is natural in another culture may be considered impudent in our eyes.

Hence, what is at issue in the matter of openness is not Constitution but appreciation. What is considered as a restriction in expressing our views is an attempt to educate our nation to go back to the corridors of our culture and our traditional way of expressing our views. Our nation is not barbarian who hurt other people's feelings at will. Our people is a cultivated nation and understands other people's feelings.

The problem is that a part of our nation has become increasingly educated and automatically tends to demand more freedom through unconventional ways. Some of them believe that as long as the Constitution provides that guarantee, any view can be expressed irrespective of the way to do it. And this appears to be erroneous.

To those who believe that openness means open criticism and is allowed to be publicised, the openness advocated by the government may become insignificant. However, to those who know the "way", this freedom of speech may turn out to be enjoyable. In closed meeting places, hot debates may be held. Behind walls, even the sharpest criticism is not only allowed but has to be put forward. Recommendations and suggestions for the improvement of policy may be forwarded through certain channels and the suggestions may be radical in nature. How-

ever, in an open forum, a sharp criticism is no longer a criticism but is an insult.

Democracy anywhere always calls for a balance between formal regulations and tradition or the political culture prevailing in society. Accordingly, one should not have the illusion that our openness will and has to be similar to that of the West. Perhaps we will criticise the attitude of anti-criticisms of some of our elites. However, if we honestly ask ourselves whether we have the tradition of being ready for open criticisms addressed

to us, I am afraid the answer will be negative.

Thus, our democracy is our own face, not that of other nations. However, it has to be kept in mind that society too, will be subject to change and dynamics. What is good today may not be good in the future and vice versa. Hence, the wisdom to understand the dynamics of society, is also demanded from all parties concerned, be they society of political elites. Only by virtue of this understanding, political stability and national unity and integrity may be maintained.

Indonesia's Initiative in APEC*

C.P.F. Luhulima

INDONESIA, as was the case with the other ASEAN countries, joined APEC only with great reluctance in 1989 although it was proclaimed as an informal governmental process "to promote economic cooperation in the Asia Pacific". The most important reasons for this reluctance was, *first*, a deep-seated concern for ASEAN's dilution. ASEAN was extremely concerned that joining a wider Asia Pacific economic cooperation initiative would attenuate its cooperation. *Second*, ASEAN was concerned that the Asia Pacific Economic Cooperation initiative will become a forum for trade negotiation dominated by Japan and the United States rather than one for trade consultations. ASEAN gives preference to the GATT and the World Trade Organisation (WTO) as a multilateral forum for trade negotiation.

It was only after intensive and enthusiastic lobbying, in particular by the initiator Australia, that Indonesia and the other ASEAN members agreed to attend the first ministerial meeting in Canberra in November 1989. It was at the first meeting that APEC succeeded in identifying its work programme which comprised the overview and analysis of the economic trends in the Asia Pacific region and trade liberalisation.

Although ASEAN attended the meeting, they insisted in no uncertain terms on some agreed principles for economic cooperation. They are that APEC should not develop into and emerge as an economic bloc; that the interest of its members at various levels of development be taken into consideration; and that the trade arrangements adopted by the new regional organisation should be consistent with the GATT rules.

The following pages will discuss the evolution and significance of APEC, Indonesia's views of APEC and the APEC 1994 agenda.

*Paper presented at the International Conference on APEC and A New Pacific Community: Issues and Prospects, Westin Chosun Hotel-Seoul, 13-14 October 1994.

The Evolution and Significance of APEC

The Asia Pacific Economic Cooperation was formally established in November 1989 in Canberra, Australia. Its establishment was occasioned by the vastly changing global political and economic situation at that time. The major factors for its emergence were the concern with the possible failure of the Uruguay Round which would increase protectionism and the rise of inward-looking, regional trade groupings (Single European Market and NAFTA) with its discriminatory bilateral or regional solutions to trade problems; and the dramatic and substantive political and economic changes which swept devastatingly over the Soviet Union and Eastern Europe.

The rapid growth in East Asian export led to increasing tensions in the 1980s. Their trading partners used to overlook the substantial growth of East Asia's imports of raw materials and capital equipment. Their attention was focused on the capture of markets by East Asia exporters and the pressure it placed on sectors where European and North American economies used to hold comparative advantage. As a consequence, the latter economies reacted defensively, which led to frequent imposition of selective import restrictions or to demand for "voluntary" export restraints. Trade tensions across the Pacific region have also been made severe by high and persistent US deficits.¹ These deficits provided for US threats of retaliation, such as by issuing the "Super 301" section of the 1988 US trade legislation.

¹These deficits have now reached US\$130 billion. Approximately US\$ 60 billion is with Japan; and 60 per cent of this amount is the deficit in the US-Japan trade, primarily in the automotive sector.

Hence, the major reason for the establishment of APEC was to overcome these restraints and threats to the open global trading system and, therefore, to the East Asian economies which rely heavily on global markets, as well as to step up trade liberalisation and smoothen the investment flow in the region. None of the East Asian economies acting on its own could have much affected the evolution of world trade rules, not even Japan. To forge alliances and to preserve and gradually enhance the rules providing for a stable open global environment for trade and investment is an important motive for economic cooperation in the Asia Pacific region.²

The thrust for economic cooperation in the Asia Pacific was considered to be extremely important since the region was the most dynamic one with an economic growth rate much higher than that of other regions. The value of trade in the region alone comprises two-third of total world trade. The significant orientation towards exports and investments were acknowledged as the more significant pushing factors behind the economic growth and development in the region.

The high economic growth rates were accompanied by a population growth of approximately two million. Its population comprises 40 per cent of that of the world which is considered a huge asset for economic growth. The high growth rates have, moreover, given rise to a substantial middle class. Next to an economic asset the high population growth is indicative of the development of a potentially huge market.

²Andrew Elek, "APEC - Motives, Objectives and Prospects," in *Australian Journal of International Affairs* 46, no. 2 (November 1992).

Hence, when in January 1989 the Australian Prime Minister Bob Hawke called for a meeting of ministers of the region to conduct ministerial-level consultations on economic cooperation there was a broadly shared perception of the potential benefits of such a gathering, except initially from the ASEAN countries. From the Indonesian point of view its successful inauguration in Canberra in November 1989 has been attributed to three major factors. *First*, is the pragmatic approach employed on substantive areas of clear common interest. *Second*, is the sensitive approach to the possible operational modalities. *Finally*, Australia's extensive consultations and lobbying in developing the concept. Most important of all, however, was the confluence of new trends and developments in the global as well as regional economies and a resurgent interest in the establishment of a more formal, inter-governmental arrangement and cooperation on economic issues among the Asia Pacific economies. "It was an idea whose time had come."³

At the same time there was also a consensus that cooperation on economic issues should essentially be outward-looking. The Asia Pacific region's continued prosperity depended on its world-wide trading links. Hence, cooperation should be designed to strengthen the region's authority in shaping global economic, trading and financial policies rather than defensively isolating itself from the rest of the international community. More importantly, APEC should not establish a trading bloc. It should not even

recommend a free trade area which has protectionist implications. APEC is advocating the lowering of trade barriers towards non-members. Hence, it strongly opposed the creation of a trading bloc and, as a corollary, inward-looking regionalism. It should instead strengthen the GATT-based multilateral trading system.

It was further clearly recognised that Asia Pacific economic cooperation should recognise the diversity of the economies of the region and, as such, avoid the emergence of domination of the process by any single economy or a sub-group of economies. Unilateral imposition of policies and processes in this interdependent world is a *contradictio in terminis* (contradiction in terms).⁴ Hence, the emphasis on consultations aimed at consensus building on a gradually broader range of economic issues rather than on a formal negotiating process where some stronger economies sought to force their views and will on others. This outward-looking cooperation should simultaneously be an open-ended process of cooperation, and gradually draw in economies with strong linkages to the initial core of participating economies which assembled in Canberra.⁵ China, Hong Kong and Taiwan were admitted as APEC members at the third ministerial meeting in Seoul in November 1991.

APEC's basic and major principles were agreed upon in its first meeting:

- APEC's objective is to sustain growth and development in the region to improve living standards and the growth of the world economy;
- APEC should strengthen an open multi-

³Ali Alatas, "Asia Pacific Economic Cooperation (APEC): Implications for ASEAN". Outline of Remarks presented at the Asia Society and CSIS Conference on the ASEAN Countries and the World Economy: Challenge of Change, Bali 3-5 March, 1991.

⁴Ali Alatas, 1991.

⁵Andrew Elek, 1992.

lateral trading system and shy away from the formation of a regional trading bloc; and

- APEC should concentrate on economic issues, to advance common interests and promote constructive interdependence by smoothening the flow of goods, services, capital and technology.

APEC's scope of activity, mode of operation and principles for participation were adopted at its third ministerial meeting in Seoul in November 1991. The scope of activity comprises exchange of information and consultation on policies to sustain growth, promote adjustment and lessen economic disparities and in so doing contribute to global economic growth and development; development of strategies to reduce impediments to trade in goods and services and investment; and promotion of regional trade, investment, human resource development and technology transfer, as well as cooperation in specific sectors (energy, environment, fisheries, tourism, transportation, telecommunication). The mode of operation is open dialogue and consensus building through consultation and exchange of views on the basis of policies and policy analysis by member countries and organisations (ASEAN, the South Pacific Forum and PECC). The Seoul Declaration reflected the various aspects of APEC's institutionalisation, such as objectives, scope, procedure, participation and its organisation. The Seoul meeting also agreed that Indonesia would become the host of the 1994 ministerial meeting and would chair APEC after the US. With the Seoul Dialogue, the objectives of APEC became transparent.⁶

⁶Hadi Soesastro, "The Institutional Framework for APEC: An ASEAN Perspective." Paper presented at the Workshop on APEC: Challenges and Opportunities, ISEAS, Singapore, 20-21 June, 1994.

APEC's secretariat and a fund (US\$2 million for the first year) to finance APEC activities were set up following the fourth ministerial meeting in Bangkok in September 1992. This meeting also agreed to renew APEC's commitment to further strengthen the multilateral trading system following the successful conclusion of the Uruguay Round; adopt regional trade liberalisation; establish an eminent persons group to enunciate a vision for trade in the Asia Pacific to the year 2000; implement four proposals which would provide significant benefits for business in the shorter term, such as:

- the establishment of an electronic tariff data base;
- harmonisation and facilitation of customs procedures and practices;
- examination of the administrative aspects of market access; and
- preparation of a detailed guidebook on investment regulatory procedures in the region.

The meeting also agreed upon the establishment of a secretariat in Singapore and the setting up of the Eminent Persons Group (EPG).

The fifth meeting in Seattle in November 1993, reiterated APEC's central objectives: the strengthening of the multilateral trading system, expansion of regional and global trade and improvement of investment rules and procedures in accordance with GATT. It also adopted the *Declaration on APEC Trade and Investment Framework* to foster APEC's role in further liberalising trade and investment through engaging its members in policy and facilitation matters and the establishment of the Committee for Trade and Investment (CTI). With the establishment of the Committee all activities and discussions of issues were transferred from the informal

Group on Regional Trade Liberalisation (RTL) to CTI. The meeting also established the Budget and Administration Committee. With the establishment of both committees, APEC's structure was as follows: the Ministerial Meeting; the Senior Officials Meeting; the Committee on Trade and Investments; the Committee on Budget and Administration (BAC); the ad-hoc working group on ETI; and 10 working groups.

At the fifth meeting Mexico and Papua New Guinea were admitted as APEC's new members and a decision was made to admit Chile at the 1994 ministerial meeting in Jakarta. The meeting also put a moratorium on new membership for three years, until the end of 1996. With the application of the moratorium it is sincerely hoped that APEC would be able to concentrate its endeavours on strengthening its cooperation in the liberalisation of trade and investment.

The holding of the APEC Leaders Economic Meeting (ALEM) in Blake Island on November 20, 1994 which was proposed and hosted by President Clinton was a historic moment for APEC. The discussion in ALEM focused on economic issues, particularly in the region, in facing the 21st century: views of the APEC leaders on the economic situation in the 21st century; their views on economic priorities and the mechanisms to achieve them. Although the meeting was originally meant to be informal and was only meant to give the opportunity to APEC leaders to exchange views and discuss economic issues in the 21st century, in the end it produced a document entitled *APEC Leaders Economic Vision Statement*, comprising three main components. *First* is an affirmation of the open multilateral trading system and the determination to take the lead in taking steps to produce a most fa-

vourable outcome of the Uruguay Round. *Second* is a vision of "community of Asia Pacific economies" which is based upon the spirit of openness and partnership; which supports an open international trading system; reduces barriers to trade and investment; equally distributes the benefits of economic growth; improves education and training; advances transportation and telecommunication; which protects the environment to improve sustainable economic growth and provides a more secure future for the people living there. *Third* is a number of initiatives (8 to be exact) which comprise:

- the meeting of APEC finance ministers;
- the establishment of a Pacific Business Forum;
- an APEC Education Programme;
- an APEC Business Volunteer programme to promote human resource development;
- a meeting of APEC Ministers involved in small and medium-scale business enterprises;
- the development of a non-binding code of principles on investment issues (Non-binding Investment Code);
- the development of an "3E" APEC's policy dialogue and action plan for conserving energy, improvement of the environment and sustaining economic growth; and
- the establishment of a Technology Transfer Exchange Centre to facilitate technology management and exchange.

Meanwhile, the EPG's first report, entitled "A Vision for APEC -- Towards an Asia Pacific Economic Community", was issued in October 1993. It recommended the progressive development of a community of Asia Pacific economies with free and open trade and investment. The report presented

three major challenges to the regional leaders: to achieve free trade in the Asia Pacific, to advance global trade liberalisation and to launch concrete programmes to move APEC towards these long term goals.

The Second Report, "Achieving the APEC Vision, Free and Open Trade in the Asia Pacific" issued in August 1994 and presented to President Soeharto as APEC's chairman on August 31,⁷ was a response to the mandate given in Seattle: "to present further more specific proposals on how the recommended long-term vision might be realised". Guided by the principle of free trade and investment; international cooperation; regional solidarity; mutual benefit; mutual respect and egalitarianism; pragmatism; decision making on the basis of consensus and implementation on the basis of flexibility, as well as open regionalism, APEC members should continue to work for global liberalisation in GATT and the new World Trade Organisation (WTO). They should include four non-mutually exclusive elements in their regional liberalisation programme: maximise unilateral liberalisation; further reduce their trade and investment barriers towards non-APEC countries; offer to extend the benefits of APEC liberalisation to non-members on a reciprocal basis; and that any individual APEC member can extend its liberalisation towards free trade to non-members on a conditional or on an unconditional basis.

On the foundation of these principles the EPG recommended to the leaders and ministers at their November 1994 meeting in Indonesia:

- to adopt a comprehensive programme to realise the vision of free and open trade in the region through adopting the goal of "free and open trade and investment in the region";
- to achieve APEC's programme of trade liberalisation by the year 2000; and
- to execute the liberalisation process in the whole region by the year 2020.

APEC should also vigorously pursue a programme of trade facilitation and technical cooperation through the following initiatives:

- early adoption of an APEC Concord on Investment Principles;
- harmonisation of national product standards and testing procedures or mutual recognition of each others' standards;
- cooperation on financial and macroeconomic issues; cooperation on environmental issues; creation of a task force to address the problem of proliferation of abusive antidumping practices;
- creation of an APEC Dispute Mediation Service (DMS); and
- technical cooperation in the field of public infrastructure, competent small and medium scale enterprises, education and other human resources development programmes. EPG is confident that this programme will achieve the community of Asia Pacific economies which was endorsed in Seattle.

The Report received harsh criticism from certain quarters. For some the Second EPG Report is "somewhat of a disappointment -- to put it mildly". The Report, it was argued, failed to produce modalities to achieve a free and open trade in the Asia Pacific based upon the idea of open re-

⁷Published by the Asia-Pacific Economic Cooperation Secretariat in August 1994.

gionalism, the formally accepted principle and approach in the region. It is on the basis of this principle that trade and investment liberalisation, unilaterally as well as concerted, is to be achieved. These liberalisations will be extended to non-APEC members on a most favoured nation (MFN) basis. The essential task of APEC, as it should be understood, is to create a conducive environment for members to speed up their trade and investment liberalisation. "The challenge that was entrusted upon the EPG was to formulate strategies to develop this environment within APEC". Open regionalism was primarily proclaimed with a view to the fact that negotiated liberalisation within APEC "is not feasible and is clearly detrimental to confidence-building in the region". Moreover, the use of a free trade area or a trading bloc is a non-starter in international trade diplomacy.

The task that was entrusted to the EPG was to lay out a plan of action to liberalise trade and investment in the region bearing in mind these constraints. Instead, the recommendations in the Report amounted to the establishment of a free trade area, since it has proposed the creation of a three-stage free trade area: first, a free trade area among APEC's most industrialised members -- "perhaps by 2010", second, an intermediate phase for the NIEs, "perhaps by 2015", while, third, the developing members "should aim to finish the process by 2020".

This is exactly where the criticism is aimed at: the introduction of trade discrimination among APEC members which is considered to be highly divisive. The EPG could have shunned producing such

achieving free trade in the region. ... This would have been more useful to policy and decision makers. To produce a "compromised advisory" on things that cannot be compromised is not helpful. In fact, if a compromise has to be made this is definitely the task of the decision makers themselves, namely our APEC leaders. ... If the eight principles that are contained in the Report's Executive Summary are followed through to their logical consequence, the implementation of APEC trade and investment liberalisation can be pursued through the 'soft path' rather than the 'hard path'.⁸

As expected, C. Fred Bergsten, the EPG chairman reacted to the harsh criticism, particularly on the discriminative character of the proposal. He defended the EPG Report by arguing that free trade among the members of APEC were wholly based on an unconditional Most Favoured Nation (MFN) basis. The misunderstanding may have been caused by the proposition of three stages for the reduction of trade barriers in the Report. He admitted that the division in stages of reduction have given the impression of proposing three distinct trade areas among APEC members. But he tried to convince his critics of the Report that such an interpretation is misleading. EPG was not aware of prospective losses suffered among members by the proposal. The facilities provided by the more advanced countries by the year 2020 is a target date for complete liberalisation of trade in the whole Asia Pacific region. The advanced countries are expected to accelerate the economic development of the developing countries which will result in the progressive acceleration of the reduction of trade barriers.

So by the year 2000, for instance, Indonesia may benefit from the open US market which have reduced all its trade barriers. Conversely the US only

an ambiguous, confusing report by explicitly describing the different -- and opposing -- options for

⁸Hadi Soesastro, "APEC Vision Contain Ambiguities", *Jakarta Post*, 10 September 1994.

enjoys 50 per cent of the reduction of the barriers being implemented. However, the trade facilitation provided by the US to Indonesia may accelerate the growth of Indonesia's economy so that hopefully before 2020 the US may enjoy Indonesia's open market.⁹

Prime Minister Goh Chok Tong of Singapore tried to come up with a compromise. "We should try and aim for [defined dates for trade liberalisation], but we should also be sensitive to the concerns of other countries. ... We will approach this with some elasticity in mind -- it can be a range of dates starting from 2005 and ending in 2020 for countries in various categories. ... But we should aim for some dates".¹⁰

At the third APEC Senior Officials Meeting (SOM) in Yogyakarta, September 10-14, 1994, where EPG chairman C. Fred Bergsten presented the Report at the opening day, many senior officials gave their support to the "thrust of the report", and expressed their approval of the long range objectives laid out in the Report, to adopt a timetable for the establishment of comprehensive free trade within 20 years, starting in the year 2000. However, SOM III participants will only draft their conclusion on the Report's vision later which will be submitted to the sixth Ministerial Meeting in Jakarta on November 11-12, 1994.¹¹

Indonesia's Views on APEC

The Second EPG Report is a clear reflection of a divergence in approach to regional

⁹*Kompas*, 13 September 1994.

¹⁰*Jakarta Post*, 14 September 1994.

¹¹*Jakarta Post*, 13 September 1994.

economic cooperation schemes: the evolutionary approach preferred by Asians versus the legalistic and institutional approach preferred by Americans. Asia's approach is to discuss and agree on principles first, to let things evolve, work out and grow gradually, to rely on the market process to set the pace for economic integration and with the lowest degree of government intervention or direction. The role of government is only to intervene in order to facilitate the market-driven process of integration through liberalising trade and investment. To start with legalistic commitments scares many Asians who indeed shy away from hasty institutionalisation of economic cooperation in multilateral fashion. This is apparently the reason why many Asians emphatically demand that APEC remains a forum for consultation rather than a forum for negotiation.¹² What Asians want with APEC is more "in the Asian sense of a big family, or friends and good neighbours". An integrated configuration of economic cooperation on the model of the European Union "does not fit well with the cultures of this region."¹³ Hence, the Asia Pacific Economic Community which was proposed by the EPG should be interpreted as an extended family rather than community in the European Community, now the European Union.

The term community in the Asian sense should primarily be understood as a community of nations, rather than an institu-

¹²Soehadi Mangkusuwondo, *An Indonesian View of APEC*, Luncheon speech delivered at the Center for Asia-Pacific Affairs, The Asia Foundation Conference on "Taking Stock of the Asia-Pacific Economic Agenda", San Francisco, 18 April 1994.

¹³Dr. Lee Tsao Yuan in *Straits Time*, 3 August 1994.

tionalised complex of integrated relationships among nations. In developing APEC they want to progressively develop closer economic cooperation without the design of maneuvers to integrate their economies. Hence the term "Community for Asia Pacific Economic Cooperation" is more appropriate to their taste. This term connotes a community in the Asia Pacific region, a community to step up economic cooperation among its members through various instruments and programmes without implying that those instruments and programmes are integral parts of a concept or framework of integrative economic integration, in the sense of a *Gemeinschaft* rather than a *Gesellschaft* in the interpretation of the well-known German sociologist Toennies. However, this concept does not preclude the fact that growing intensification of economic cooperation may decisively heighten the interdependence of their economies and that they agree at a later stage that the time has come to upgrade their economic cooperation to the next, more integrative level without sacrificing the concept of open regionalism.

This is also the reason why APEC should not engage in a regional preferential trading arrangement scheme. To start such a scheme would involuntarily lead to the creation of an economic bloc even though it is intended for a limited period of time. Other economic groupings, such as the European Union, might retaliate by hardening their protective stance and thus lead to economic confrontation. Indonesia is not supportive of the idea of an APEC-wide preferential trading arrangement. It cannot afford to do so since it is chairing both the Non-Aligned Movement (NAM) and APEC. In NAM Indonesia is energetically fostering South-South cooperation with the objective of accelerating trade,

investment flows and technical and development cooperation among developing countries. Hence, a consistent Indonesian foreign policy would be to foster greater South-South cooperation, while entering into an open regional trade arrangement with the countries of the Northern hemisphere which is beneficial for the South.

The important question at this juncture is how should cooperation among the various members with very substantial disparities in degrees of economic development at this point in time be forged? The stark economic differences involuntarily breed different views and approaches to implement the priorities of APEC cooperation.

Indonesia's President Soeharto has categorised APEC members into four succinct groupings:

- the highly advanced industrialised members (Japan and the US);
- the advanced countries with firmly established industrialisation levels (Canada, Australia and New Zealand);
- the newly industrialising economies (South Korea, Taiwan, Hong Kong, Singapore); and
- the developing nations of the region (the other ASEAN countries, China and Papua New Guinea, and other Pacific Island Nations).

These stark economic disparities and, as a consequence, the equally stark discrepancies in national capabilities to benefit equally from the high regional growth performances and progress may well procreate greater dependency and deepen existing friction rather than produce the desired harmony and greater mutual gains incessantly endeavoured individually or collectively. Issues and points

of discord reflective of the North-South polarisation are clearly visible in the Asia Pacific region as well. What the developing countries of the region yearn for persistently is genuine interdependence and equitable co-operation in the region. The various programmes of cooperation should hence fully take into consideration the interests of the developing countries to enable them to reduce and in the end close the gap between them and the advanced countries.

It is with these views in mind that during Indonesia's chairmanship a number of concrete cooperation programmes relevant to their utmost interests have been made, such as human resource development in all its aspects and cooperation in the development of both public and commercial infrastructures. While it is true that trade and trade-related investment have a crucial role to play, and that Asia Pacific trade and trade-related investment are the most dynamic part of total trade, one should, however, not be oblivious of the fact that rapid growth for developing countries like Indonesia cannot be sustained, unless its physical and human resources are energetically being developed. It is thus not surprising that Indonesia, as the host of the sixth APEC ministerial meeting and the second leaders meeting, has emphasised human resource development on the agenda of the Jakarta meeting which had been agreed upon by the other members. APEC cooperation should thus include significant elements such as education and training, technology transfer and development, development of small and medium-scale enterprises, as well as promotion of investment in physical infrastructure, such as electricity and telecommunications. These components should be part and parcel of the whole APEC process. A balanced agenda

will get the full support of all member countries.

This is mainly the reason why Indonesia and other developing nations cannot accept the proposal of developed members of APEC to push for the establishment of an institutionalised free trade area in the Asia Pacific. The developed APEC economies will persist in the coming meetings to push for the institutionalisation of APEC to enable it to formulate modalities for a free trade scheme, also to force open the European Single Market to open up for US exports. Other ASEAN countries would also oppose this proposal of institutionalisation as it is against their *Kuching Consensus 1990* which is to preserve their collective identity and cohesion in facing APEC.¹⁴

It is, moreover, the private sector that should be actively engaged in the successful conduct of the programmes. Indonesia is fully aware that without the active participation of the private sector the Asia Pacific region would not have achieved such high growth rates. The integration of the private sector in APEC activities thus obtains specific attention in the development of the programmes which is:

- the direct participation of the private sector in APEC activities;
- their cooperation in providing substantial assistance to the speedy development of small and medium-scale enterprises; and
- the promotion of wide-spread business networking arrangements in the region.

For Indonesia, the Asia Pacific is an extremely important region, politically, eco-

¹⁴Hadi Soesastro to *Jakarta Post*, 24 September 1994; see also Wisber Loeis talking to *Kompas*, 15 September 1994.

nomically and from the point of view of the country's security. Approximately 70 per cent of Indonesia's exports are conducted in the region. About 60 per cent of the flow of investments into Indonesia comes from countries in the region, while Asia Pacific countries supplied almost 35 per cent of all foreign assistance to the country. Indonesia's active role in ASEAN, and in its comprehensive institutions, the ASEAN Post Ministerial Meeting and the recently established ASEAN Regional Forum, are sufficient substantiation of its primary orientation towards ASEAN and towards the wider Asia Pacific region.

It is the view of Indonesia and the other ASEAN member countries that:

- in any enhanced Asia Pacific cooperation scheme, ASEAN's identity and cohesion should be preserved while its cooperation with its dialogue partners and other third countries should not be diluted;
- the enhanced APEC should be founded on the principles of equality, equity and mutual benefit, taking into account the different stages of economic development and socio-political systems among them;
- APEC should not become an inward-looking economic or trading bloc, but should instead serve to strengthen the open, multilateral economic and trading systems in the world;
- APEC should essentially be a forum for consultations on economic issues and should not resort to unilateral or bilateral measures;
- APEC should be designed to aim at enhancing the individual and collective capabilities of participants for economic analysis and to facilitate more effective consultations to enable participants to identify and promote their common interests

and project them more vigorously in the larger multilateral forums; and

- APEC should proceed gradually and pragmatically, particularly in its institutionalisation, to avoid complications and problems of future expansion.

These principles of ASEAN participation in the APEC were first formulated and agreed upon in Kuching, Malaysia in 1990 (Kuching Consensus).

While Indonesia acknowledged that the regional system and open global trade system as embodied in GATT is essential for its fast and spectacular growth, it is, however, national policies that determine the success or failure of economic development in the country. Such is also the case in other developing countries. Hence, if the goal of APEC cooperation is to sustain rapid economic growth in the region, then national policies on trade and investment liberalisation should be tenaciously continued. These unilateral liberalisation measures were characteristic of all developing countries in the region and they have indeed proven to be vital for the rapid growth and formidable performances of those economies.

The crucial question for Indonesia is how could APEC facilitate the unilateral liberalisation measures which are non-discriminatory, which are applied on a MFN basis and thus consistent with GATT. Unilateral liberalisation does not require lengthy and frequently pugnacious bilateral relations which usually attend regional or global trade liberalisation schemes. It is thus important for Indonesia that the encouragement of unilateral liberalisation should be an essential part of the APEC process.

Closely related to this argument is the

widespread realisation that Indonesia, and the other developing economies in the region, should be allowed to catch up with the industrialised and highly advanced economies before fully participating in negotiated trade and investment liberalisation schemes in the Asia Pacific.

Confidence in APEC is, however, amply expressed in this respect. Indonesia's Coordinating Minister for Industry and Trade, Hartarto, who is known to be strongly in favour of expanding APEC relations expressed the view that APEC will be able to demonstrate to the rest of the world how best to solve the problems of imbalance and inequality in international economic relations. APEC is visualised as a laboratory or a model for inter-state economic relations; it comprises countries at different stages of economic development. Despite these gaps in development, he argued, close cooperation among APEC members could be maintained.¹⁵

The Agenda of APEC 1994

As the current Chairman of APEC, Indonesia planned to hold four Senior Officials Meetings (SOM) and one Ministerial Meeting. Indonesia will also host an APEC Leaders Meeting as was agreed in Blake Island.

The Ministerial Meeting and the ALEM will take place in November 1994, on November 11-12 and November 15 respectively. SOM IV is planned to take place on November 6-10.

SOM I was held on 31 January - 4 February in Jakarta; SOM II in Bali on 16-20 May

and SOM III in Yogyakarta on 10-14 September, 1994, while SOM IV will take place back-to-back to the Ministerial Meeting in November 1994.

Apart from this schedule, other APEC meetings were held:

- the Working Group on Trade Promotion in Bali, 2-4 March 1994;
- the Working Group on Tourism in Yogyakarta;
- the Working Group on Transportation in Bali (21-24 September);
- the first Experts Meeting on Small and Medium Enterprises held in Jakarta (April 24-27) and the second one in Yogyakarta on 6-8 September 1994;
- the first Experts Meeting on Investments in Yogyakarta (6-7 September);
- a Customs Symposium to be held simultaneously with the fourth APEC Ministerial Meeting.

Other Ministers Meetings were and will take place in 1994. Some of the meetings were proposed at Blake Island, while others were agreed upon by the fifth Ministerial Meeting.

The US has acted as host to the Finance Ministers Meeting in Honolulu (18-19 March 1994). Canada hosted the Environment Ministers Meeting in Vancouver (25-26 March). Indonesia hosted the Trade Ministers Meeting in Jakarta (6 October). The meeting of ministers dealing with small and medium-scale enterprises will take place on October 24 in Osaka, Japan.

Not all meetings will be dealt with here. Only some significant points of discussions will be highlighted in line with Indonesia's proposed area of priorities.

¹⁵*Jakarta Post*, 7 September 1994.

First, is the principle of non-binding investment. It was the point of deliberations in SOM II in Bali. This principle consists of 12 features: transparency; non-discrimination among economic actors in APEC; national treatment; incentives for investments; minimise the use of performance requirements as a means of achieving policy objectives; expropriation and compensation; repatriation and convertibility; disputes settlement; entry and sojourn of personnel; avoidance of double taxation, investor behaviour; and removal of barriers to capital exports. Japan's proposal to include copy rights was not favourably received by Indonesia and other countries since this proposal has already been dealt with in the Uruguay Round. The major areas of contention here remain transparency, non-discrimination among economic actors and national treatment. These 12 points of the principle of non-binding investment have formally been formulated into a draft entitled *APEC Non-Binding Investment Principles*. The point of contention on copy rights was included in the draft's preamble.

Second, is the linkage between the small and medium enterprises with the business networks of the big companies to enable SMEs to participate in global business dealings. The implementation of this lofty proposal should be based on the need to study of an electronic database and a strategic alliance to support the blueprint for development of the SMEs.

The Experts Meetings on Small and Medium Enterprises has focused on seven specific issues:

- training in providing maximum service to SMEs;
- programme of facilitation by CTI;

- public and commercial infrastructure;
- human resource development;
- private sector networking;
- finance.

These issues are a further development of the agreements of the exports at SOM II in Bali. The experts are fully aware of the difficulties in developing SMEs as a consequence of five major constraints:

- their limited market access;
- their lack of funds;
- their lack of managerial capability;
- their lack of technical capability; and
- their lack of compatible information.

It is on the basis of these constraints that the experts recommended to conduct studies on the possibility of instituting a strategic alliance between SMEs and big business with developed global linkages. This cooperation should be designed to develop the industry and trade sectors of the SMEs.

The three specific recommendations that came out of the deliberations were:

- classification of SMEs. Classification could be conducted on the basis of the number of employees and SME had or of sales turnover in a year;
- developing an international focus in SMEs activities to enable them to participate in international business;
- to study the architecture of future industries to enable SMEs to develop in that direction.

Third, is the endorsement of the Asia-Pacific Business Network (APB-Net), a new body facilitating business activities among APEC members by SOM III. It was conceived during SOM II in Bali, and was launched in Jakarta (23-25 August 1994). Its

main objective is to develop and maintain business to business networking in the Asia Pacific region as a means of channeling the vitality of the business sector. APB-Net could be perceived as the implementation of private business sector participation within APEC as envisaged by the APEC Leaders Meeting in Blake Island.

Meanwhile, SOM III has decided that all the initiatives will be assessed under the eight themes in the ALEM Vision Statement. This was done to evaluate in how far instructions of the leaders contained in that Statement have been implemented. SOM III also adopted two new sub-committees under the Committee on Trade and Investment (CTI): one on standards and conformance and another on customs and procedures. These sub-committees will have a trial period of three years after which its work will be evaluated. It also agreed on the transformation of the Ad hoc Working Group on Economic Trends and Issues into a committee.

Fourth, APEC Ministers affirmed at their fifth meeting in Seattle that human capital is the greatest single asset in achieving economic growth and development. Human Resource Development in APEC is concerned with the investment and enhancement of human capital in terms of knowledge and skills, in particular entrepreneurs and managers, teachers and trainers. SOM III supported Indonesia's draft of a Ministerial Declaration on a Human Resources Development Framework which would be further revised by the fourth SOM.

Indonesia also introduced a detailed discussion paper on APEC cooperation in infrastructure. SOM III took note of the im-

portance of the infrastructure issue for APEC and its bearing on future economic growth and development. Discussion on commercial and public infrastructure should continue at SOM IV, while member countries were invited to comment on Indonesia's paper to facilitate discussion at the next SOM.

SOM III also discussed requests from Peru, Cambodia, Vietnam, Mongolia and Russia to participate in some APEC Working Groups.

However, the identification of issues and endorsements which were made at SOM III and formulated into a draft agenda were not adopted in its final statement. Wisber Loeis, Director-General for Foreign Economic Relations of the Indonesian Foreign Ministry, said that it was his own idea that SOM III should not adopt the agenda. There are several reasons for his decision. *First*, Indonesia as chair of the 17-member forum reserved the right to set the agenda on its own. *Second*, Loeis did not want to bypass his foreign minister's prerogative to set the agenda and who might have ideas of his own. Thus the agenda of APEC VI will still be decided upon. "My preference is that I will report to the Indonesian minister who is going to chair the APEC meeting",¹⁶ indicating that the agenda of APEC's Ministerial Meeting will be drawn up by Indonesia taking into account the issue and endorsements of proposals made at SOM III.

Conclusion

APEC's basic principles of cooperation which were agreed at its first meeting in Can-

¹⁶*Jakarta Post*, 15 September 1994.

berra consisted of the task of sustaining growth and development in the region to improve living standards and the growth of the world economy; of strengthening an open multilateral trading system; and of concentrating on economic (rather than on political and security) issues to advance common interests and promote constructive interdependence by smoothening the flow of goods, services, capital and technology.

APEC's scope of activity, mode of operation and principles for participation were adopted at its third ministerial meeting in Seoul, November 1991. The scope of activity comprises exchange of information and consultation on policies to sustain growth, to promote of adjustment and lessen economic disparities; development of strategies to reduce impediments to trade in goods and services and investment; and promotion of regional trade, investment, human resource development and technology transfer, as well as cooperation in specific sectors. The mode of operation is open dialogue and consensus building through consultation and exchange of views on the basis of policies and policy analysis by member countries and organisations.

Indonesia, as a developing member of ASEAN, cannot accept the advanced APEC economies persisting in institutionalising the forum and formulate modalities for a free trade scheme, particularly if it is designed to force open other markets for their own commercial benefit. Its view on APEC's essential task is to create an environment conducive for its members, particularly the developing members, to speed up their trade and investment liberalisation rather than institutionalising a free trade area. Other ASEAN countries will also oppose the proposal of tar-

geted institutionalisation as it is against the Kuching Consensus.

The divergencies in approaches to economic cooperation schemes among APEC members are primarily to be sought in cultural factors: the divergence between the evolutionary approach preferred by the majority of Asians and the legalistic and institutional approach preferred by the majority of Americans. Indonesia's view of APEC cooperation is closer to the dream of the Pacific Economic Cooperation Conference (PECC) in which the country has for a long time been actively engaged. It is a dream of a region of countries freely trading among themselves, carefully avoiding discrimination, both among themselves, and against outsiders. It is a dream of a region of deepening economic integration, in which markets, and business enterprises are the main agents of change. Governments support their economic exchanges through the provision of social, political and physical infrastructure of various kinds, but strictly along the contours shaped by the dynamic markets of the region. It is of a region of growing, successful, self-confident economies, fully aware that they themselves are principal beneficiaries of their own liberalisation, and that if others grow better through opportunities deriving from their own liberalisation then this does no harm. It is a dream of a region that sees the benefits of trade liberalisation and shares the ambition of creating a region in which all trade is free, yet recognising that there are practical constraints in specific countries that will make progress uneven.¹⁷

¹⁷Ross Garnaut, "APEC after Seattle and the Uruguay Round". Paper presented at the 10th International General Meeting of the Pacific Economic Cooperation Council, Kuala Lumpur, 22-24 March, 1994.

The expectation that APEC's first and foremost task is to create such a conducive environment is the dream of APEC's members, particularly APEC's developing member countries. It is the governments' primary

role to bring into existence such an environment in order that Asia Pacific economies can bloom unimpededly, without the setting of targets when such a dream of a region of free trading countries should become reality.

The Changing Attitude of Australia and Indonesia Towards APEC

Teuku Rezasyah

Introduction

THIS essay is designed to analyse the nature, extent and purpose of the Asia Pacific Economic Cooperation (APEC), and its continuous development; involving Australia and Indonesia. Australian Prime Minister Bob Hawke proposed the idea of APEC in January 1989, and it was designed to: encourage more effective regional economic cooperation; act as a forum for regional dialogue on matters of common economic interests; support the Uruguay Round negotiations; and finally chart regional trade liberalisation on a non discriminatory basis.¹ Even though it was officially denied, APEC represented a response to the European and North American trading bloc's strategies to reverse the global

economic commitment back towards multi-lateralism.

The evolution of APEC can be traced back to the change from "geopolitics" to "geoeconomics" during the second half of 1980s, where the competition for influence through capital flows began to undermine militarisation.² Countries in the region welcomed the waning of ideological disputes between Communism and Capitalism, and experienced a normalisation in the Soviet/PRC relationship.³

Since its early days, APEC has faced many obstacles. However, the biggest worry for member states has been the ever present possibility that the organisation might be exploited by the great powers. Nevertheless,

²For details of this global restructurisation, see Chin Kin Wah, "Changing Global Trends and Their Effects on the Asia-Pacific Region", *Contemporary Southeast Asia* 13, no. 1 (June 1991): 1-16.

³Nancy Viviani, "Foreign Economic Policy", in C. Jennett and R.G. Stewart (eds.), *Hawke and Australian Foreign Policy* (South Melbourne: Macmillan, 1990), 393.

¹For more details on this subject, see Gareth Evans and Bruce Grant, *Australia's Foreign Relations in the World of the 1990s* (Melbourne: Melbourne University Press, 1992), 121; Consult also *Australian Foreign Affairs Review* (April 1991): 128-9.

within five years, APEC has shown significant progress, and this has resulted in an increased membership. Today APEC has 17 members from the four geographical regions of the Pacific rim. They are three North American countries (the United States, Canada and Mexico), five Northeastern Asian countries (Japan, China, South Korea, Hong Kong and Taiwan), six members of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand); and countries from South Pacific, i.e. Australia, New Zealand and Papua New Guinea.⁴ Taken together, APEC participants today account for more than 50 per cent of world production, and over 40 per cent of global trade. Their internal trade covers more than 65 per cent of their global trade, which consequently leaves the rest of the world with the remaining 35 per cent.⁵ The increasing role played by APEC since the Cold War shows that the politico-security aspect tends to interrelate and interact more with the politico-economic one.

Australia has shown a very active role throughout the whole process of APEC, starting from its own original idea, and its ability to convince other countries, among others Indonesia, of the sanctity of this new regionalism. APEC represented Australian high profile diplomacy and ability to organise coalition building following its successful diplomacy in GATT, the Cairns Group, and finally, the Cambodian peace plan.⁶ The purpose of this essay is to examine the history of Australian involvement

in APEC. Secondly, to trace Indonesian reservation and commitment to APEC and ASEAN. Thirdly, we will examine the possible role played by Australia and Indonesia in the future development of APEC.

APEC as an Australian Initiative and Japan-USA Concessions

Basically, Australian regional concern has been determined by its status as a predominantly western country in a region with nations of distinct culture, history and shared experiences.⁷ At the same time, it has begun to realise that the military threat has been replaced by a competitive international division of labour, which may threaten its economy if it is not prepared to compete internationally.⁸ The environment where Australia coexists boasts one of the fastest growing economies in the world. Major countries in this region recorded an average of seven per cent in GDP growth and 14.5 per cent in export growth in 1988. In fact they have successfully adjusted their economic policies with the competing international trade, and made maximum use of the continuous linkage between the two.⁹

⁷Stuart Harris, "Economic Cooperation and Institution Building", in R. Higgott, R. Leaver and J. Ravenhill (eds.), *Pacific Economic Relations in the 1990s: Cooperation or Conflict?* (Colorado: Lynne Rienne Publishers, 1993), 25.

⁸Richard Higgott, "Closing a Branch Office of Empire Australian Foreign Policy and the UK at Century's End", *International Affairs* 70, no. 1 (January 1994): 47; consult also Viviani, *Foreign Economic Policy*, 400.

⁹Evans and Grant, *Australia's Foreign Relations*, 121. For a details figure of the region countries economic performance, consult Suhadi Mangkusuwondo, "Pacific Economic Cooperation and Indonesia", *Indonesian Quarterly* XIX, no. 1 (First Quarter 1991): 82-3.

⁴*Jakarta Post*, 26 August 1994, 1.

⁵Andrew Elek, "Asia Pacific Economic Co-operation (APEC)", in *Southeast Asian Affairs 1991* (Singapore: Institute of Southeast Asian Studies, 1991): 161.

⁶Evans and Grant, *Australia's Foreign Relations*, 121.

The region's economic growth has in fact run in tandem with Australian export, which jumped significantly from 26 per cent in 1965 to 47 per cent in 1988. Since then, Australian total export and import in this region have been maintained at 60 per cent.¹⁰ With the ASEAN countries in particular, during 1986 to 1991 Australia doubled its shipment of export merchandise, and in 1991 its export to ASEAN began to surpass its export to either the USA or the European Economic Community.¹¹

The continuity of the region's economic growth depends on the trade liberalisation under GATT and Uruguay Round mechanism. Ross Garnaut explains that the success of the Uruguay Round may provide more secure international economic growth and reduced barriers to Australian export. It can also further Australian global competition with the United States in the East Asian markets.¹² However, it was difficult to accommodate more than 100 states with distinct interests into an economic consensus. Australia was critical of the continuing erosion of the GATT trading system and major changes in the world monetary system which had had a serious economic impact internationally. Australia had already experienced fluctuations in its commodity prices in the international market, which in turn reversed back negatively on its domestic economy. If

the above pattern continues, it may reduce Australian economic parity vis-à-vis greater economies such as the United States, Japan and EEC.¹³ At the same time, the growth of regional economic groupings in North America and Europe may severely hamper Australian interests.

Since then Australia has begun to "mull over" the idea of a regional institution with the power to prevent the creation of economic blocs; and stave off the collapse of the above-mentioned trade mechanism. Australia found itself unable to single-handedly bear such a regional framework, in the absence of support from its allies, regional associates and close trading partners. Australia consulted ASEAN on matters, which the latter did approve, as long as it evolved gradually and permitted the maintenance of ASEAN's identity.¹⁴ The United States and Japan were then consulted, and they did not have any reservations about Australia's ideas. Despite continuous confirmation from the Australians that they are not the "Trojan Horse" of the USA and Japan, I find that the latter's approval has helped Australia to socialise the idea of APEC and gain acceptance from the countries in the region. Here we will examine how Australian ideas came into unison with the interests of the United States and Japan.

Initially the United States membership was not in Australia's original plan. However, ASEAN might draw back their parti-

¹⁰Richard Higgott, "Australia in a Changing World", in F.A. Mediansky (ed.), *Australia in a Changing World* (Botany: Maxwell Macmillan Publishing-Australia, 1992), 133.

¹¹Stewart Firth, "Problems in Australian Foreign Policy", *Australian Journal of Politics and History* 39, no. 1 (1993): 2.

¹²Ross Garnaut, "Australia's Asia-Pacific Journey", *Australian Quarterly* 64, no. 4 (Summer 1992): 374-5.

¹³For a better perspective on the impact of the global trading system on Australian economy, see Viviani, *Foreign Economic Policy*, 392; Evans and Grant, *Australia's Foreign Relations*, 120.

¹⁴Andrew Elek, "APEC-Motives, Objectives and Prospects", *Australian Journal of Politics and History* 60, no. 2 (November 1992): 163.

cipation once the United States was excluded from APEC membership, since it unwillingly views Japanese leadership as being without sufficient counter balance.¹⁵ For the United States in particular, the waning of its global economy did not prevent it from maintaining a leadership role; it has historically perceived the Asia Pacific region as part of its global interests, and remains determined to maintain policies which suit the changing political, military and economic dimension in this region.¹⁶ Like Australia, since the early 1980s the US total trade with the region has begun to surpass its trade with the Atlantic. In the US eyes, apart from being the most economically dynamic region, it was also relatively stable compared with the Middle East, Africa or Latin America.¹⁷

The Australian idea coincided with the American mode of partnership in the region, since its economy could no longer sufficiently support its diplomatic coalitions and alliance commitments as it had successfully done so in the past. In the current multipolar environment, where the international economy tends to become more symmetrically interdependent, the US economy not only affects other countries, but the latter's development tends to influence the US economy as well.¹⁸ Unlike Australia's purely eco-

nomic motives, the United States began to perceive a challenge to its leadership in economic and technological terms, which was emanating from Japan and the European Economic Community.¹⁹ The United States welcomed the Australian idea but at the same time it turned to regionalism in its own region as it has done in NAFTA.²⁰ Implicitly, the United States expected to play a role in the two regional economic institutions and to maintain their links under its supervision.

Australia's approach to Japan on the idea of APEC was understandable. The country has been the greatest creditor in the world economy, one of Australia's greatest export destinations, and has encouraged a politically and economically stable region as a prerequisite for marketing its goods and capital.

Eventhough Japan maintains a close political relationship with developed economic countries, there is no guarantee that such a relationship is immune from trade disputes and market restrictions. At the same time, its dependence on the flow of natural resources from the Asia-Pacific region, and local leadership shift and unrest have hampered its economic growth. At the global level, Japan's critical problem is its trade imbalance with the US, which needs to be resolved by either yen appreciation or trade bargaining. The former only affects the growth of the Japanese economy, but the

¹⁵Simon Hay, "Australia and APEC: The First Five Years", *Current Affairs Bulletin* (April 1994): 12.

¹⁶Lloyd R. Vasey (ed.), *Pacific Asia and US Policies: A Political-Economic Strategic Assessment* (Hawaii: Pacific Forum, 1978), xxxvi.

¹⁷Jusuf Wanandi, "The Strategic Outlook for the Asia-Pacific Region Towards the 21st Century: A Regional Perspective", *Indonesian Quarterly* XVI, no. 2 (April 1988): 247.

¹⁸Glen St. Barclay, "The Problems in Australian Foreign Policy, July-December 1992", *Australian Journal of Politics and History* 39, no. 2 (1993): 142.

¹⁹For a clear observation on the strategic rivalry of the United States and Japan after the collapse of the Soviet Union, consult Peter Polomka, "Economic Growth and Strategic Issues", in J.L. Richardson (ed.), *Northeast Asian Challenge Debating the Garnaut Report* (Canberra: Research School of Pacific Studies, 1991), 100-1.

²⁰Eiichi Furukawa, "Changes in Southeast Asian Views of Japan", *Japan Echo* XX, no. 3 (Autumn 1993): 50.

latter tends to force Japan to search out new markets. Australia's proposal was acceptable to Japan, as it preferred an economically stable region as a base against possible economic dispute with developed countries.²¹

Prior to Australia's establishment of APEC, Japan was very active in promoting a regional body similar to the European OECD, which operated hand in hand with PECC.²² Unluckily, direct Japanese involvement in the initiation of such a regional forum was criticised by its former colonies. From the Indonesian perspective, Hasnan Habib among others perceived Japan as continuously exploiting the region's natural resources and cultivating foreign aid only to benefit itself, not the developing countries. Japan was also labelled as arrogant as its economic methods were rather high-handed, and did not take into consideration the feelings of the local cultures. Even though the above image appeared in the mid-1970s, such a notion has not effectively vanished even today, in the 1990s.²³

The idea of APEC easily gained acceptance since it was introduced by Australia, a relatively middle power; not by either the United States or Japan. Australia is not a member of the OECD bloc, the European Community, NAFTA or ASEAN, but she is

²¹Lau Teik Soon and Leo Suryadinata (eds.), *Moving into the Pacific Century: The Changing Regional Order in the Asia-Pacific* (Singapore: Heinemann Asia, 1989), 4-5.

²²Suedo Sudo, "Japan's Role in the Context of the Emerging Asia Pacific World", *Southeast Asian Affairs 1989* (Singapore: Institute of Southeast Asian Studies, 1989), 61.

²³A. Hasnan Habib, "Japan's Role in the Asia Pacific Region: An ASEAN Perspective", *Indonesian Quarterly* XVIII, no. 1 (First Quarter 1990): 51.

concerned with the integration of the South-east Asian and Northeastern economies.²⁴ At that stage Hawke officially meant APEC to be an extension of the Pacific Economic Co-operative Conference (PECC) to governmental level, acting as a consultative process for regional members dealing in trade and monetary problems.²⁵ Concerted governmental intervention in the regional economy is primarily important, as unlike the European Community and the North American economies, governments in the Asia Pacific region play a dominant role in shaping and managing their state of economy.²⁶

Indonesian Reservation

The Indonesian response to APEC was modest but lacked obvious enthusiasm. This reservation was embedded in two main ideas, i.e. the developing condition of its national economy and its willingness to build ASEAN into a more solid organisation.²⁷

At the economic level, openness is associated with increased internationalism, modernisation, and to a certain level: westernisation. Being a developing country therefore, it is difficult to compromise possible penetration of foreign ideas, products, capital, "know-how", technology and culture. In the long run, it is believed that these factors may culminate in increased insecurity and reduced sovereignty in maintaining In-

²⁴For a clear international posture of Australian, please refer to Higgott, *Australia in a Changing World*, 139.

²⁵Viviani, *Foreign Economic Policy*, 401.

²⁶Stuart Harris, *Economic Cooperation*, 276.

²⁷Andrew MacIntyre and Nancy Viviani, "APEC Revisited", *Australian Journal of International Relations* 46, no. 2 (November 1992): iv.

Indonesia's existing culture and identity.²⁸ Indonesia also believes that ASEAN as a whole (excluding Singapore) face several common problems: its member countries rely on a narrow range of primary export products, they maintain a limited domestic market to support their industrialisation, and finally, they lack the capital to support their industrial projects. Externally, industrial countries tend to impose restrictive import measures on developing countries exports, and are capable of influencing prices in the world market.²⁹

At the same time, the maintenance of harmony among APEC members could result in concession in terms of an open market policy.³⁰ Organisational control of Indonesia's domestic food policy may result in domestic tension. Here, the continuity of food supply gained from the domestic market can ensure the stability of a country that is semi-industrialised. Indonesia is also critical of tariff barriers which restricted its export of textiles and tropical products. It is also suspicious of the mechanism of protecting Intellectual Property Rights, which restricted the flow of technology to developing countries.³¹

²⁸Stuart Harris, "Economic Cooperation and Institution Building", in J.L. Richardson (ed.), *Northeast Asian Challenge*, 28.

²⁹Alejandro Melchor Jr., "Assessing ASEAN's Viability in a Changing World", in Llyod R. Vasey (ed.), *Pacific Asia*, 70.

³⁰Trevor Matthews and John Ravenhill, "The Economic Challenge: Is Unilateral Free Trade the Correct Response?", in J.L. Richardson (ed.), *Northeast Asian Challenge*, 69-71.

³¹For an observation on Indonesian economic constraint, consult Mangkusuwondo, *Pacific Economic Cooperation*, 85-6.

Regarding ASEAN, Indonesia's primary concern surpasses its adherence to APEC, since it reluctantly sees the institution as being led by a hegemonic order with a different agenda, that aim to control and distribute resources and support their own economic position in the long run.³² The countries under consideration are the United States and Japan, and it is believed that they may try and use APEC as a Trojan Horse to force their interests upon the smaller partners.

Japan in particular has the capability to change APEC into a regional coalition against the US, as well constructing APEC as an insurance against the formation of NAFTA and the European Community.³³ Indonesia continues to be worried about Japan's ambitions, and for safety reasons wishes to see the latter's role in APEC as purely an economic one. Therefore, Indonesia welcomes the involvement of the US, since it will balance Japan's political ambition.³⁴ Moreover, ASEAN's involvement in a bigger organisation could hamper its cohesion and identity, since it may face difficulty in appeasing political and economic pressures from greater powers. Indonesia believed that the relatively young ASEAN

³²Richard Leaver, "The Future of Northeast Asian Growth: The Regionalist Alternative", in J.L. Richardson (ed.), *Northeast Asian Challenge*, 52-3; consult also Stuart Harris, *Economic Cooperation*, 282.

³³MacIntyre and Viviani, *APEC Revisited*, v.

³⁴It is worth noting that despite considering Japan as its main economic donor, Indonesia could never eradicate its past of being colonised by Japan. For an excellent review of the problem, please consult Gary Klintworth, *The Asia Pacific More Security, Less Uncertainty, New Opportunities*, Working Paper no. 20 (Canberra: Strategic and Defence Studies Centre, 1991), 7-8; consult also Suedo, *Japan's Role*, 63; and Barclay, *Problems in Australian*, 149.

should be continuously safeguarded by its members.³⁵

Linking the above two factors, Mochtar Kusumaatmadja, the former Indonesian foreign minister, conceded the country's unpreparedness to join APEC, due to its infrastructural shortcomings, and physical, administrative and legal matters. Taking note of its size, resources and population, Indonesia finds itself content with the ASEAN format of cooperation. In fact ASEAN has proved its cohesiveness through its involvement and influences in UNCTAD, GATT, the Uruguay Round, OECD, Non Allied Movement and the Group of 77. The ASEAN member countries prefer to continue the mechanism called Post Ministerial Conference (PMC) as a forum of consultation with APEC members. This annual venue is attended by ASEAN's dialogue partners comprising: the United States, the European Community, Japan, Canada, Australia and New Zealand. This mechanism could perform a better function if some adjustments were made.³⁶ ASEAN's 24th PMC in Kuala Lumpur in July 1991 for example, actually managed to welcome traditional APEC participants and non participants such as the Soviet Union and the PRC.³⁷

In fact, limited concentration on the Asia Pacific region produced another vulnerability, since once the organisational mechanism broke down, or some member countries experienced political or economic reorienta-

tion; most of the APEC members would experience difficulties in finding alternative markets outside the region. Being a developing country Indonesia needed continuous market that is primarily global, not merely focused in the Asia Pacific region. Once Indonesia is quarantined in a Yen bloc, in the long run it will find markets closed in both the DM bloc in Europe and US\$ bloc in North America. This view in fact coincides with former Singaporean Prime Minister Lee Kuan Yew's idea, whose economy is more internationally competitive than Indonesia.³⁸

The Reversal of the Indonesian Position

Even though it was not enthusiastically received at the beginning, APEC's idea of wider regional cooperation began to gain support from ASEAN. This expansion in interest began when ASEAN found obstacles in furthering its internal economic cooperation. Prominent examples were the unsuccessful ASEAN industrial projects and industrial joint ventures; and their failed tariff preference efforts aimed to produce an integrated ASEAN market.³⁹ On the other hand, ASEAN's flow of trade with APEC countries began to exceed intra ASEAN trade.⁴⁰ Finally, they conceded the need to shift the ASEAN-PMCs agenda into economic and trade related matters; and not to be dominated by the Cambodian conflict.⁴¹

³⁵Mangkusuwondo, *Pacific Economic Cooperation*, 87; consult also Hay, *Australia and APEC*, 14.

³⁶Mochtar Kusumaatmadja, "ASEAN and the Pacific in the 1990's", *Indonesian Quarterly* XIX, no. 2 (Second Quarter 1991): 134-5.

³⁷Klintworth, *The Asia Pacific*, 18.

³⁸Wah, *Changing Global Trends*, 9.

³⁹Harris, *Economic Cooperation*, 281; Kusumaatmadja, *ASEAN and the Pacific*, 136.

⁴⁰*Australian Foreign Affairs Review* (April 1991): 131.

⁴¹Elek, *Asia Pacific Forum*, 36.

However, Indonesia's commitment to APEC was made with one concession. The Indonesian foreign minister stated in 1991 that APEC should remain a forum for regional consultation that would work gradually and pragmatically for the region's economic progress. Concurrently APEC should progressively support the open multi-lateral trading system, and resist the temptation to become a trade bloc.⁴²

A linkage analysis showed that, as Australia, Indonesia had to follow the classical mercantilist rule, which required it to forward the interests of its business community which had begun to forward their interests globally, that were beginning to overlap in many ways with the government's own interests.⁴³ Accordingly, the continuity of Indonesian national growth has become the crucial factor in the way the Soeharto government has come to terms with APEC. At the same time, Indonesia's departure from oil-based commodities export into international trade export commodities would be best achieved through an improvement in the global business environment. The finalisation of a regional single market in year 2020 will give Indonesia sufficient time to adequately equip its infrastructure for global competition, and the restructuring of the wealth distribution among segments of its society. Another concern is the lack of competitiveness in its industries, seen in their limited access to the world market, and their lack of ability to take advantage of the growing Asia Pacific import markets. These factors have encouraged the government to chart a long term vision of its foreign economic policies along with the whole Asia Pa-

cific countries. In short, Indonesia has sufficient time to bypass its economic problems, and provide a basis to integrate the state's economy into the competitive world economy.

Indonesian interest grew more and more when APEC conferences began to introduce areas which were suitable for Indonesian long term economic needs. They are: the review and analysis of the region's economic outlook; regional consultation on trade liberalisation; related programmes of investment, technology transfer and human resources development; and sectoral cooperation in tourism, energy, trade promotion, environmental matters and infrastructure development.⁴⁴ Being one of the "shepherds" of the last two components Indonesia plays a prominent role in APEC, which suits its regional role and domestic needs.⁴⁵

Australia's Broader Expectation of APEC

Despite proposing an acceptable regional economic organisation, Australia's intended role in APEC is somewhat less specific. In terms of organisational leadership it has discouraged joint leadership between the US and Japan.⁴⁶ However, if we examine Foreign Minister Gareth Evans' perception of Australia as a major supplier to the world, and economically being more powerful than India or the ASEAN countries, it is evident that Australia intends to play a dominant

⁴²*Backgrounder* (5 April 1991): 5.

⁴⁴*Monthly Record* (February 1991): 66.

⁴⁵*Backgrounder* (26 March 1990): 2.

⁴⁶Higgott, *Australia in a Changing World*, 136.

⁴³MacIntyre and Viviani, *APEC Revisited*, iii.

role in APEC.⁴⁷ In my opinion, Australia expects to play a double track role in APEC. For example, at the economical level, she expects to run APEC in tandem with Japan, and to become the broker of intra APEC co-operation. At the strategic level, she expects APEC to become somewhat of an open organisation.

Economically, the American membership of APEC has brought the following dilemmas: *first*, there is a need to accommodate its trade dispute with Japan, and *second*, to reconcile Australia's desired role in the organisation. Australia acted as an interlocutor in the trade dispute mentioned earlier, and sought to shape any possible outcomes of its commitment to the region.⁴⁸ However, the two countries face difficulties in regularising their trade differences, because they tend to perceive their relationship from a "zero-sum" perspective, i.e. where a gain for one means a loss for the other.⁴⁹ Their critical state of relationship was reiterated by President Bush, who was willing to expand NAFTA into Eastern Europe and the Asia Pacific, and to exclude Japan from both groups.⁵⁰

In response to the above-mentioned situation, Australia was supportive of Japan, and was prepared to side with the latter

once it involved itself in a trade war with the United States.⁵¹ The Australian stance was based on their concession to maintain an open and non discriminatory trading system.⁵² Responding to the American trade deficit complaint, caused by Japan's trade restriction practices, Australia criticised the United States for being unable to improve its domestic competitiveness.⁵³

In fact, Japan and Australia maintain a progressive attitude to APEC, which were prepared to change their original motive. As exemplified by Miyazawa in 1991, Japan was prepared to bring the Asian group into an economic bloc, and to undo the proposed economic blocs in North America and Europe.⁵⁴ The same notion was also expressed by Australia, as its hypothetical response to the demise of GATT, caused by the European trading bloc.⁵⁵ Moreover, Australia began to propose a regular regional heads of government's meeting, to counter the European G 7's influence on the world economy.⁵⁶

Despite the appraisal of the economic sanctity of APEC, Australia believes that the disappearance of super power contention does not prevent insecurities in terms of territorial conflict and inter-state tensions, in

⁴⁷Australia never declared its intended leadership role in APEC. However, the notion was persistent when its decision makers compared its state of economy with other states which are relatively middle powers. Consult, *Monthly Record*, April 1991, 125.

⁴⁸F.A. Mediansky, "Australia's Foreign Policy in a Changing World", in F.A. Mediansky (ed.), *Australia in a Changing World*, 310.

⁴⁹Bernard K. Gordon, "Pacific Futures for the USA", in Soon and Suryadinata (eds.), *Moving into the Pacific*, 19.

⁵⁰Furukawa, *Changes in Southeast Asian Views*, 50.

⁵¹*Weekend Australian*, 3-4 September 1994, 13-14.

⁵²David Watts, *Guide to Japan: Understanding the World's Newest Superpower* (London: Times Books, 1993), 152.

⁵³Higgott, *Closing a Branch Office*, 51.

⁵⁴Klintworth, *The Asia Pacific*, 8.

⁵⁵Joseph A. Camilleri, "Problems in Australian Foreign Policy", *Australian Journal of Politics and History* 37, no. 2 (1991): 19.

⁵⁶Brian Hocking, "Australia: Old Relationships Versus New Linkages", *World Today* 49, no. 7 (July 1993): 129.

the region. Accordingly, Japan's economic success, along with its reduced strategic parity with the United States may lead the former to increased political and military power. Other possible configurations are China becoming a geopolitical contender and the unified Korea which possesses nuclear armaments. Such a combination of uncertainties may create a feeling of insecurity in the region.⁵⁷ Henceforth, Australia began to propose that APEC discuss non-economic issues such as a collective security framework.

The idea was launched by Gareth Evans at the ASEAN Post Ministerial Conference in 1990. Acknowledging the idea as being premature, Evans highlighted the importance of organising a regional dialogue on security issues, which would resemble the European Conference on Security and Co-operation in Europe.⁵⁸ The idea was exemplified again at the same venue in 1991, where Australia among others proposed an establishment of the Supreme National Council, aimed to discuss security issues among its members.⁵⁹

Indonesia did not approve of the idea, since ASEAN had committed itself to focus on security matters based on the idea of the

Zone of Peace, Freedom and Neutrality (ZOPFAN), and this could be adjusted to face future Asia Pacific security problems.⁶⁰ Singapore was the only ASEAN member who welcomed the APEC discussion of a regional security framework.⁶¹ Indonesia however, refused to commit itself to this kind of arrangement, since it would bring countries with domestic problems, such as human rights, to the forum's attention. Following the Mexican experience in NAFTA, the United States government tended to link the former human right practises with its trade policy, so Mexico was faced with the need to improve its democratic institutions following the American standard.⁶²

A security venue would not interest all the APEC members, as they are concerned more with economic issues. However, in the future APEC may transcend economy into political cooperation and consultation, since the region has not decided on a regular venue for their top decision makers. Such a mechanism would benefit countries like Japan, China and South Korea who would use the forum to discuss their common interests.⁶³

In my opinion, Indonesia belongs to the states in APEC which expect great economic powers to restrain their strategic interests in the Asia Pacific region, and adhere to a coalition building of states based on consensus. The scenario is based on the fact that the US economy was not sufficiently capable of supporting the country's leadership throughout the Cold War period, while Japan is

⁵⁷ Hocking, *Australia Old Relationships*. The notion was also acknowledged by Hadi Soesastro, the Executive Director at the Centre for Strategic and International Studies. Despite not representing the Indonesian official perspective, it might represent some circle in the security community, reminding on the CSIS link with the former. See Hadi Soesastro, "Implications of the Post-Cold War Politico-Security Environment for the Pacific Economy", in Fred Bergsten and Marcus Noland (eds.), *Pacific Dynamism and the International Economic System* (Washington, D.C.: Institute for International Economics), 368.

⁵⁸ *Backgrounder* (7 September 1990): 3.

⁵⁹ *Monthly Record* (July 1991): 366.

⁶⁰ *Backgrounder* (7 September 1990): 4.

⁶¹ *Backgrounder* (5 April 1991): 5.

⁶² Patrick Bryant, "Rights Stuffed", *Nation* (6-13 September 1993): 232.

⁶³ Hay, *Australia and APEC*, 16.

reluctant to assume a leadership role, due to its domestic constraints and a lack of support from other countries in the region.

For a country whose state of relationship with the PRC is highly sensitive, Indonesia has anticipated the necessity to deal with Hong Kong and Taiwan once they officially come into APEC, which in the long run would lead to the construction of a three-fold Chinese economy, possessing more than half of the world economy.⁶⁴ Indonesia preferred a concerted economic power of ASEAN, Australia, PRC, Japan and the United States, which will balance the ambitions of each country, and provide Indonesia with a technically safe institution.

⁶⁴Elek, *Asia Pacific Economic Cooperation*, 44.

Conclusion

Within five years APEC begin to experience different expectations from its members. It is not clear if Australia's design of APEC is coloured with hidden agendas from either the United States or Japan. However, the Australian and Indonesian examples represent a paradox of APEC. The former belongs to countries that already possess a solid economic structure, which has begun to turn outward and to increase its international role. Indonesia on the other hand requires a substantive improvement in its socio-economic structure prior to committing itself to APEC; so it tends to prefer membership in a strict organisation that confines itself to economic matters.

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Investment and the Asia Pacific Region*

Mari Pangestu

Direct Foreign Investment: Trends and Prospects

THE Asia Pacific region has been one of the most dynamic in terms of receiving as well as being sources for investment flows. Direct foreign investment (DFI) flows play an increasingly important role in the growth, development and integration of the Asia Pacific region since DFI not only involves capital flows, but also facilitates trade and transfers of technology.

The main trends and prospects for DFI in the Asia Pacific region can be summarised as follows. *First*, the DFI inflows into the region grew rapidly from an average of \$30.5 billion in the first half of the decade to \$95.7 billion by 1989. However, there has been a decline in inflows since 1989 reaching only \$49.7 billion in 1992. Nevertheless, APEC accounts for one third of foreign investment flows in the world. The US accounted for a

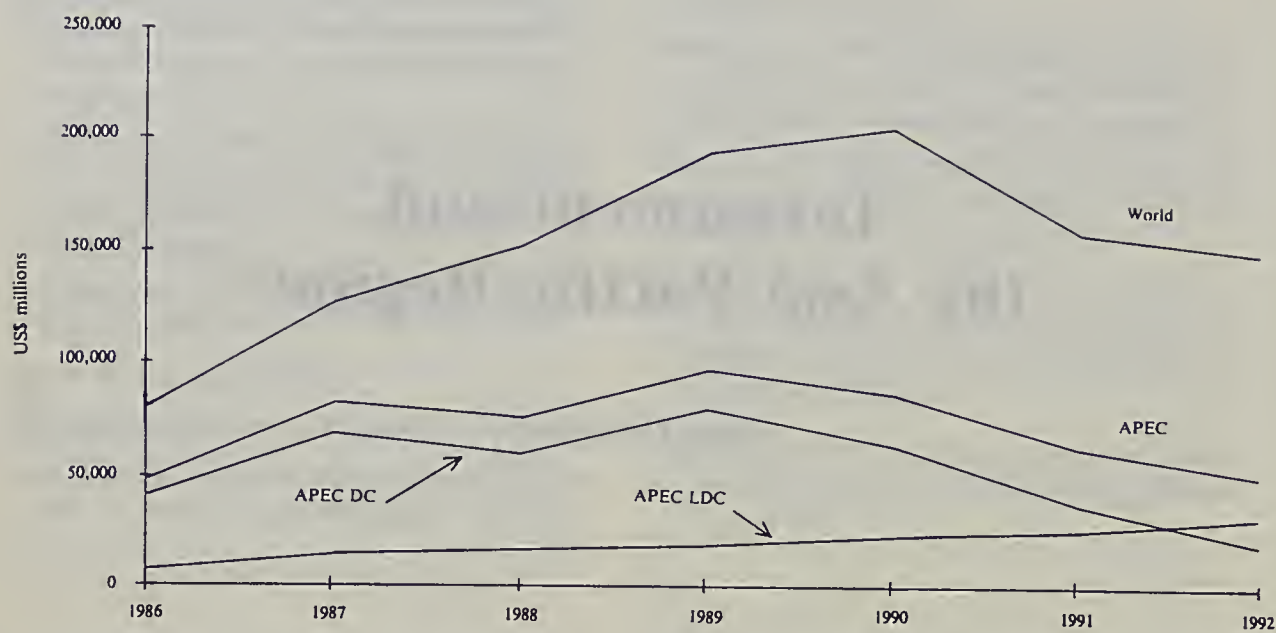
large part of these inflows as well as for the decline in the 1990s as can be seen from the decline in the inflows into APEC developed countries (Chart 1). Whereas the inflows into the developing APEC countries continued to increase rapidly into the 1990s. By 1992 developing APEC countries accounted for 64% of the DFI inflows into APEC. As can be seen from Chart 2 the ASEAN countries, Mexico and especially China, were the main recipients of investment. In the 1990s there is an apparent shift of investment inflows from the ASEAN countries to China, but this trend may be reversing again due to overheating problems in China.

Second, for both developed and developing economies in the region, the main sources of investment are the developed economies of the US, Japan and the EC. Japan was the leading investor in the region until 1992 when the US became the top investor in the region (Chart 3). There has been a sharp decline in Japanese investments due to the slowdown in the Japanese economy. However, the East Asian NIE (Newly Industri-

*Paper presented at the Asia-Pacific Business Network (APB-Net), Meridien Hotel, Jakarta, 23-25 August 1994.

Chart 1

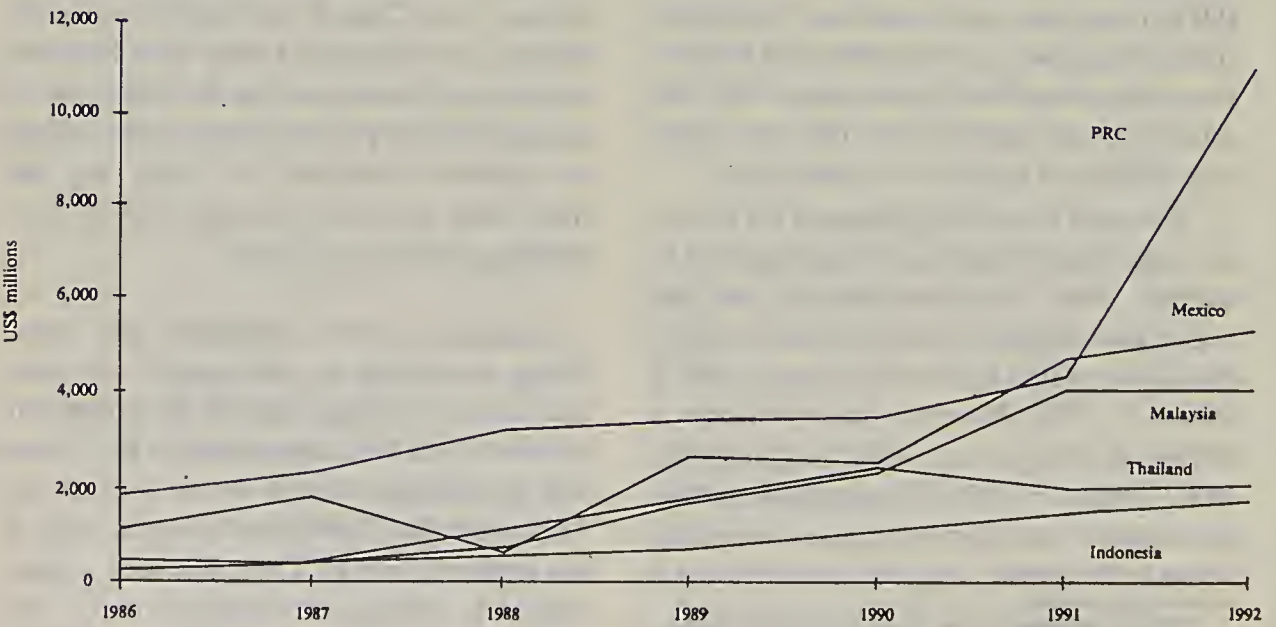
DFI BY DESTINATION



Source: *UN World Investment Report* (LDC stands for less developed countries and DC stands for developed countries).

Chart 2

DFI BY COUNTRY OF DESTINATION



Source: *UN World Investment Report*.

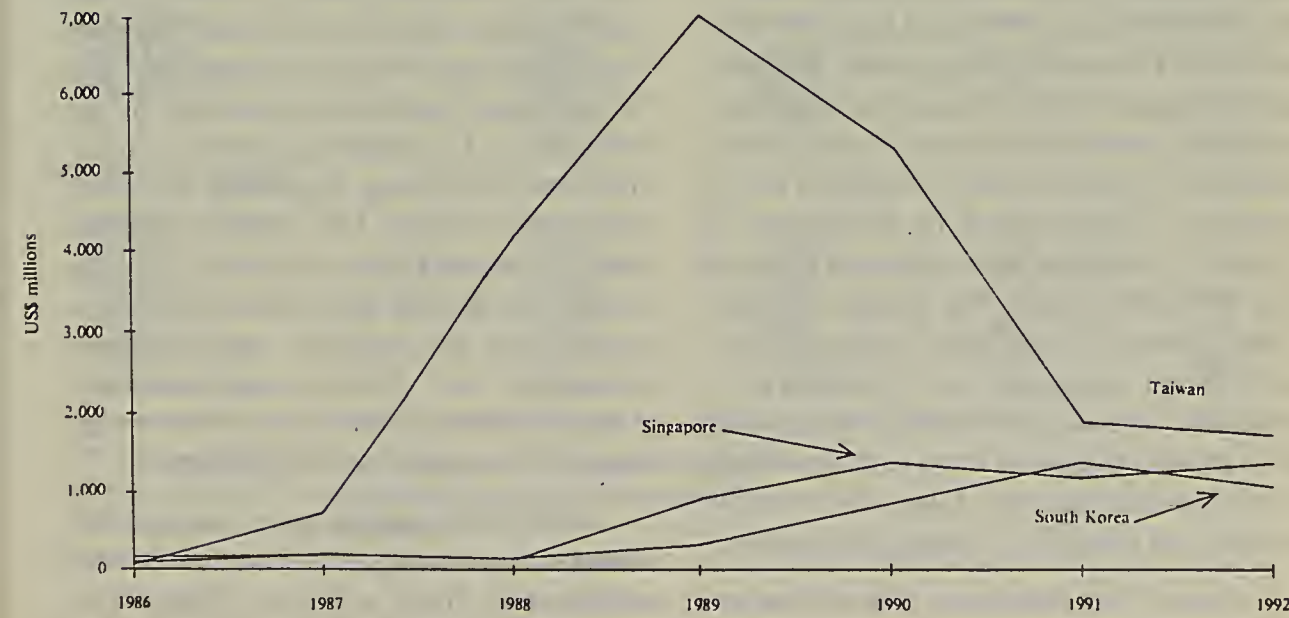
Chart 3

DFI BY COUNTRY OF ORIGIN



Chart 4

DFI BY COUNTRY OF ORIGIN



alised Economies) are increasingly becoming an important source of investments since 1987. From Chart 4 it can be seen that investment outflows from Singapore, South Korea and especially Taiwan have increased significantly since 1987. As is well known, investments from Japan and the East Asian NIE increased since the mid-1980s due to the relocation motive which has in turn been due to appreciation of their currencies and restructuring of their economies on account of rising labour and other costs such as land. The increase in protectionist pressures from North America and EC has also led to an outward flow. Japanese investments into US and Western Europe were undertaken to overcome trade restrictions and conflicts as well as to take advantage of NAFTA and the European single market. Relocation to Southeast Asia and China, by both Japan and the East Asian NIE were also undertaken to overcome quotas, graduation from GSP and trade friction.

Third, there has been a spate of deregulation and economic reforms, including relaxation of foreign investment restrictions, as host countries become increasingly aware of the importance of the role of foreign investment. DFI is seen to bring capital, technology, management and marketing capability, access to international financial markets and markets for exports. The competition for investment is emphasised in this region as flows of investment have shifted to China in the 1991-1993 period. For instance, in June 1994, Indonesia announced substantive removals on ownership and divestiture restrictions. On the other hand, liberalisation of outward investment flows from developed countries and the East Asian NIE with the removal of controls on capital movements.

Fourth, the globalisation trend has ac-

celerated in the 1980s and will continue into the 1990s. MNCs for developed countries as well as firms from East Asian NIE have taken advantage of technological advances in transportation, communications, and information technology, as well as policy liberalisation and reforms mentioned above, to enhance their competitive edge through creating production networks spread across several countries. There is a division of labour based on the comparative advantage (i.e. resource endowments, labour costs and so on) and competitive advantage (i.e. domestic technological capability, nature of market, existence of supplier industries and so on).

Given the globalisation trend, there is growing realisation that locational advantages are no longer just confined to natural resource availability, low labour cost, and a favourable investment climate. Sustaining locational advantages for the medium and longer term means enhancing technological capability. Furthermore, in the era of just in time production and just in time delivery, the existence of supporting industries and fast turn around of goods is crucial. These requirements mean that host countries must increasingly pay attention to improving their technological capabilities, ensuring the development of competitive domestic industries and facilitating movement of goods within the country (for instance between export processing zones) as well as internationally. In meeting these requirements host governments will have to, among others, reconsider their policies on protection, customs clearance, human resource development and technological development.

In the APEC region, intra regional DFI linkages have increased as a result of this globalisation trend and other "push fac-

tors'' mentioned above. East Asian NIE have also undertaken investments in developed APEC countries, namely the US and EC to access technology by being close to the source of innovation and thus supplementing domestic R & D efforts.

These trends are likely to continue and the appreciation of the yen is expected to lead to another wave of relocation. The process of restructuring is also still continuing in Japan and the East Asian NIE. Whereas the

ASEAN-4 (minus Singapore) countries and China will continue to improve their technological capabilities and investment climate. There is some expectation that the China wave may be settling down as China experienced overheating and political uncertainties continue, and that there will be an increase in investments directed toward the ASEAN-4.

However, the motivation for DFI will no longer be confined to developed countries

Table 1
SELECTED APEC COUNTRIES: BASIC ECONOMIC INDICATORS
FOR INVESTMENT CONSIDERATION

	GNP/capita (current \$) 1992	GNP/capita (\$ PPP adj.) 1992	GDP Growth (% p.a.) 1980-92	Labor Force (millions) 1992
Developed Economies				
Japan	28,190	20,160	4.1	63
USA	23,240	23,120	2.7	124
Canada	20,710	19,720	2.8	14
Australia	17,260	17,350	3.1	8
New Zealand	12,300	14,400	1.4	2
NIE				
South Korea	6,790	8,950	9.4	19
Hong Kong	15,360	20,050	6.7	3
Singapore	15,730	16,720	6.7	1
Mexico	3,470	7,490	1.5	32
Developing Economies				
Indonesia	670	2,970	5.7	75
Malaysia	2,790	8,050	5.9	7
Philippines	770	2,480	1.2	24
Thailand	1,840	5,890	8.2	31
China	470	1,910	9.1	699
Papua New Guinea	950	2,970	2.3	2

* PPP adjusted GNP refers to purchasing power parity adjusted GNP per capita. The GNP per capita numbers are adjusted to parities computed for a fixed basket of products.

**Taiwan is not included due to lack of data availability.

Source: World Bank, *World Development Report*.

Table 2

ASIA PACIFIC: SELECTED INDICATORS ON
INFRASTRUCTURE, 1990

	Paved Roads (Kilometers)	Electricity Generating Capacity ('000 kilowatts)	Electricity Production (millions of Kilowatt-hours)	Telephone Main Lines (number of connections)	Area (per 1,000 Square km)	Population (millions)
Developed Economies						
Japan	782,041	194,763	857,347	54,523,952	378	124
USA		775,396	3,031,023	136,336,992	9,373	250
Canada	289,010	104,140	481,752	15,295,819	9,976	27
Australia	263,527	36,782	154,558	7,786,889	7,713	17
New Zealand	52,400	7,504	30,159	1,469,000	271	3
NIE*						
South Korea	34,248	24,056	118,740	13,276,449	99	43
Hong Kong	1,484	8,342	28,938	2,474,998	1	6
Singapore	2,757	3,400	15,620	1,040,187	1	3
Mexico	82,022	29,274	122,482	5,354,500	1,958	86
Developing Economies						
Indonesia	116,460	11,480	44,255	1,069,015	1,905	178
Malaysia	27,720	5,037	24,722	1,585,744	330	18
Philippines	22,238	6,869	26,329	610,032	300	61
Thailand	39,910	9,722	46,180	1,324,522	513	56
China		137,891	621,200	6,850,300	9,561	1,134
PNG	828	490	1,790	30,187	463	4

	Paved Roads (Km/square km)	Electricity Generating Capacity (kilowatts per person)	Electricity Production (kilowatt-hours per person)	Telephone Main Lines (number of connections per 100 people)
Developed Economies				
Japan	2.07	1.57	6,914.09	43.97
USA	na	3.10	12,124.09	54.53
Canada	0.03	3.86	17,842.67	56.65
Australia	0.03	2.16	9,091.65	45.81
New Zealand	0.19	2.50	10,053.00	48.97
NIE				
South Korea	0.35	0.56	2,761.40	30.88
Hong Kong	1.48	1.39	4,823.00	41.25
Singapore	2.76	1.13	5,206.67	34.67
Mexico	0.04	0.34	1,424.21	6.23
Developing Economies				
Indonesia	0.06	0.06	248.62	0.60
Malaysia	0.08	0.28	1,373.44	8.81
Philippines	0.07	0.11	431.62	1.00
Thailand	0.08	0.17	824.64	2.37
China	na	0.12	547.80	0.60
PNG	0.00	0.12	447.50	0.75

*Taiwan is not included since data from World Bank data does not include Taiwan.

Source: World Bank, *World Development Report*.

and East Asian NIE relocating to the cheaper locations in developing countries in the region, but will involve several other motivations. Given the high economic growth and increasing purchasing power in the region, Asia Pacific, and notably East Asia will increasingly become an important market. The GNP per capita for the region is rising and GDP growth remains robust for the region (Table 1).

Second the high growth and booming economies of the region, especially China, Southeast Asia and some of the NIE, also imply heightened demand for infrastructure development, especially electricity, telecommunications, transportation and property development (i.e. office buildings, hotels and real estate). The development of human resources which will involve training and technical consultancy will also be an area where direct foreign participation will increase, either through commercially motivated DFI or through aid money. Given shortage of funds and the dire need to develop infrastructure, almost all of these countries are allowing private and foreign investors to participate in infrastructure provision (including education). Table 2 shows that for most of the developing APEC economies, all the indicators such as paved road per square km, electricity generating and production capacity, and telephone lines still show a very low ratio and thus a huge potential for increase. Therefore, infrastructure development will be a booming sector for the region.

Finally given the growing level of technological capability in the region, the region will also see a growing number of strategic alliances being formed which may not necessarily be in the form of DFI. There will be

an increase of alliances formed through the "new forms" of DFI such as licensing, franchising, BOT and so on.

Asia Pacific Cooperation in Investment

At the APEC meeting last year, the Leaders statement emphasised the need for trade and investment facilitation in the region. To this end a Committee on Trade and Investment was formed at the Ministerial Meeting. The Leaders summit emphasised the commitment of APEC countries to increase liberalisation of investment in the Asia Pacific region to accelerate the results under the GATT Uruguay Round agreement. The Leaders summit also emphasised the need for a non binding Asia Pacific Investment Code.

Foreign investment is important because of its role in sustaining dynamic growth in the region. Whereas investment cooperation is important to ensure that investment continues to increase and that the maximum benefit from DFI is obtained (i.e. quality not just quantity of DFI). Similarity in investment principles will prevent "incentive wars" between host countries as they compete for investments which will lead to eventual erosion of benefits from DFI. Investment flows will also be facilitated by eliminating distorting regulations and reducing uncertainty. Cooperation in investment will facilitate integration of the economies in the Asia Pacific region; enhance the positive aspects of globalisation; reduce potential conflicts between host government, home government and firms; and account for government policies that have international consequences.

To this end the APEC senior officials have been working on a framework for investment cooperation which involves identifying universally accepted principles of investment which the APEC economies are asked to adhere to on a voluntary basis.

The main principles that will be included are: transparency, non discrimination, national treatment and recognition of the sovereign right of countries to determine its policies. Transparency is related to clear explanation and dissemination of regulations and changes thereof. Whereas non discrimination is related to the MFN (most favored nation) principle under GATT where policies on investment cannot be implemented differently for different countries. Right of establishment is directed toward rights to establish new entities by foreigners whereas national treatment refers to similar treat-

ment between foreign and national companies once the foreign entity has been established. The framework agreement also recognises the right of countries to determine their own policies but seeks to establish a minimum set of disciplines for which such policies can deviate from the above principles (mainly national treatment).

This set of principles is expected to be announced at the Ministerial meeting in November of this year. While many are skeptical about the usefulness of such a framework agreement, given that it is non binding, as with most such agreements, much will depend on the political will and attitudes of the APEC economies to begin to adhere to these principles. Nevertheless, to have these principles on paper should be treated as an important beginning.

APEC and the Asia Pacific: An ASEAN Perspective*

Hadi Soesastro

Introduction

ECONOMIC regionalisation has become an important item in the national, regional and international agenda of almost all countries in the Asia Pacific region. Economic regionalisation has many forms, as it may be driven by different kinds of forces.

The ASEAN countries are engaged in a growing number of regional economic co-operation arrangements. First and foremost is ASEAN, the Association of Southeast Asian Nations, established in 1967. It is widely believed that this economic association is primarily aimed at developing a kind of regional solidarity among neighbours for the purpose of regional peace and stability. Thus, this association is largely politically-driven. The founding fathers of ASEAN made it clear, however, that regional economic integration is not the objective of ASEAN.

*Paper presented at The Regionalization of the World Economy Policy Seminar, Dupont Plaza Hotel, Washington, D.C., 5-6 October 1994.

In 1992 ASEAN leaders began to realise that their economies were rapidly involved in market-driven processes towards regional and international economic integration. Rather than each country going its own way, they thought that by joining forces they could enhance their collective position and increase the gains from integration in the world economy. In addition, they believed that governments could facilitate this market-driven integration.

This realisation led to the decision to form an ASEAN Free Trade Area (AFTA). ASEAN governments also realised that improving and strengthening intra-ASEAN economic cooperation had become imperative for the viability and relevance of ASEAN. It was felt that closer economic cooperation had become more feasible due to the changing nature of the ASEAN economies. The external shocks in the 1980s have led the ASEAN countries to undertaking adjustments by adopting outward oriented strategies and unilateral liberalisation.

In essence AFTA is primarily aimed at enhancing ASEAN's attractiveness as an investment location and market. It can also be seen as a training ground for the ASEAN members in their efforts to integrate more fully into the world economy. However, AFTA's scope is much more limited than that of other recent regional cooperation initiatives such as NAFTA (North American Free Trade Agreement). Some have even argued that the AFTA scheme is rather archaic in nature and that the 15 year period for its completion is far too long. Recently, ASEAN governments have agreed to seek ways to accelerate AFTA's implementation.

AFTA is but one of a number of initiatives that are currently being promoted by ASEAN governments. Other initiatives are seen as complementary because ASEAN is both too small and too big. On the one hand, ASEAN is considered too big in the sense that despite restructuring of each of the ASEAN economies they are still diverse and at different levels of development and thus, integration among all its members tends to be shallow. Accordingly, to make economic cooperation meaningful, ASEAN had adopted the so-called "six minus X" principle through which less than all members can undertake an ASEAN cooperation project. An example of this is the development of the SIJORI growth triangle involving Singapore, Johor in Malaysia, and Riau in Indonesia.

On the other hand, ASEAN is too small to be effective in its external economic diplomacy given the uncertainties in the world economy. To increase its effectiveness, ASEAN sees the need to be part of larger groupings in the Asia Pacific region such as APEC (Asia Pacific Economic Coopera-

tion).

The different economic cooperation schemes that ASEAN is engaged in form a kind of concentric circles of cooperation, each of which are to be consistent with the further enhancement of the GATT (General Agreement of Tariffs and Trade)-based multilateral trading system. Although AFTA is a preferential arrangement among its members, the ASEAN countries realize that AFTA should be outward oriented. The different schemes of ASEAN intra- and extra-regional cooperation should ideally reinforce each other. Indeed, a balance of attention to developing intra- and extra-regional links should be maintained because excessive preoccupation with facilitating intra-regional economic links tends to divert attention away from the important objective of global trade liberalisation. In view of its trade with the rest of the world, ASEAN should seek ways to sustain and enhance its trade and other economic links with all its trading partners.

Each of the different schemes of ASEAN's extra-regional cooperation, APEC and the proposed EAEC (East Asia Economic Caucus), is an insurance policy for ASEAN; it is an insurance policy against the uncertain development in the world economy. Indeed, uncertainty appears to be the driving force behind many forms of regional cooperation that are currently being proposed, including ARF (ASEAN Regional Forum) in the politico-security field. A "new regionalism" is emerging in the Asia Pacific region. One important characteristic of this new regionalism, which is clearly spelled out in the politico-security realm, is the principle of inclusiveness, namely the inclusion of the very sources of uncertainty (or potential

threat) themselves in the regional arrangement concerned. This characteristic should also be adopted in the economic field as it provides the underlying logic for the strategy of concentric circles of cooperation that is being pursued by ASEAN.

ASEAN and APEC's Development

APEC is still in its infancy as it is less than five years old. It is also not immediately obvious from its name what APEC is supposed to be. When it came into being in November 1989 it was proclaimed as an "informal inter-governmental process" to promote economic cooperation in the Asia Pacific region. APEC can be seen as a major experiment in regional institution building involving such diverse countries and economies.

In January 1989, during his visit to South Korea, the then Australian Prime Minister, Bob Hawke, proposed a meeting of ministers from the region to discuss ways to establish economic cooperation at a government level. The successful inauguration of what becomes APEC has been attributed to a number of factors (Ali Alatas, 1991). *First*, is its pragmatic approach on substantive areas of clear common interest. *Second*, is its sensitive approach with regard to the possible operational modalities. *Third*, is the careful and extensive consultations undertaken by Australia in developing and preparing the concept. However, it should not be overlooked that the dramatic changes in the regional and international political and economic environments have led governments in the region to recognise the necessity to establish an inter-governmental forum for consultation and cooperation on economic issues.

The first APEC ministerial meeting, held in Canberra in November 1989, was attended by 26 ministers from 12 regional economies, namely the six ASEAN countries, the five Pacific developed countries and South Korea. Three organisations were accepted as official observers: ASEAN, PECC, and the South Pacific Forum Secretariat. This meeting agreed on the basic principles of APEC, namely that:

1. the objective of APEC is to sustain growth and development in the region to contribute to improving living standards and, more generally, growth of the world economy;
2. APEC should seek to strengthen an open multilateral trading system and not be directed towards the formation of a regional trading bloc; and
3. APEC should focus on economic rather than political or security issues, to advance common interests and foster constructive interdependence by encouraging the flow of goods, services, capital and technology.

The second ministerial meeting was held in Singapore in July 1990. In this meeting, seven work projects for practical cooperation were established. They were aimed at "developing the habit of cooperation" and demonstrating the benefits of economic cooperation through: improving regional data on the flow of goods, services and investment; enhancing technology transfer; and human resources development; promoting cooperation in energy; in marine resources; and in telecommunication. Three additional work projects were added later: transportation; tourism; and, fisheries.

To demonstrate APEC's support for a strong, open multilateral system, ministers

issued a declaration which stressed their firm commitment to a timely and successful completion of the Uruguay Round. It was also agreed at this second meeting that a central theme of APEC, after completion of the Round, would be to promote a more open trading system, with exploration of the scope for non-discriminatory regional trade liberalisation.

China, Hong Kong and Taiwan (as Chinese Taipei) were admitted as members of APEC at the third ministerial meeting in Seoul in November 1991. The meeting also adopted the Seoul Declaration which set out the scope of activity, mode of operation of, and the principles for participation in APEC.

The scope of activity for APEC includes:

1. exchange of information and consultation on policies relevant to common efforts to sustain growth, promote adjustment and reduce economic disparities;
2. development of strategies to reduce impediments to trade and investment; and
3. promotion of regional trade, investment, human resource development, technology transfer and cooperation in specific sectors such as energy, environment, fisheries, tourism, transportation, and telecommunication.

The mode of operation of APEC is based on mutual benefit, a commitment to open dialogue and consensus building and cooperation through consultation and exchange of views drawing on analysis and policy ideas contributed by member economies and relevant organisations (ASEAN, PECC, and the South Pacific Forum). APEC also welcomes private-sector participation in appropriate APEC activities. Participation in

APEC is open, in principle, to economies in the Asia Pacific region which have strong regional economic links and accept its objective. Decisions on participation are made by consensus.

The fourth APEC ministerial meeting, held in Bangkok in September 1992, agreed to set up a permanent secretariat as a support mechanism and a fund to finance APEC activities. The Secretariat was set up in Singapore in January 1993, headed by an executive director (from the Chair of APEC) and a deputy executive director (from the succeeding Chair of APEC). The Secretariat's function is to coordinate and assist APEC's work projects, facilitate communications between APEC members and provide a point of contact for the public, other organisations and business. It also has a research and analysis unit. The APEC Central Fund to be derived from member contributions was set at US\$2 million for the first year.

In their statement, the ministers, among other things, agreed to:

- a. Renew APEC's firm commitment to achieving the strengthened multilateral trading system that would result from the successful conclusion of the Uruguay Round;
- b. Confirm the importance they attach to strengthening and liberalising trade and adopt regional trade liberalisation as one of the main priorities for 1993;
- c. Establish an eminent persons group to enunciate a vision for trade in the Asia Pacific to the year 2000 and identify constraints and issues which APEC should consider in advancing regional trade liberalisation over the next 10 years;

d. Implement four proposals which would provide significant benefits for business in the shorter term; these are:

- establishment of an electronic tariff data base for APEC members to facilitate regional trade through better information flows;
- harmonisation and facilitation of customs procedures and practices;
- examination of the administrative aspects of market access and recommendation on means of reducing the costs they impose on trade; and
- preparation of a detailed guidebook on investment regulatory procedures in the region.

In the fifth ministerial meeting in Seattle in November 1993, Mexico and Papua New Guinea were admitted to APEC and a decision was made to admit Chile to APEC at the ministerial meeting in 1994. It was also agreed to defer consideration of additional members for three years.

At this meeting, ministers reiterated that the strengthening of the multilateral trading system, expansion of regional and global trade and improvement of investment rules and procedures in a GATT-consistent manner were central APEC objectives. They called for an early and successful conclusion of the Uruguay Round and demonstrated their commitment to this goal by expressing their preparedness to take additional specific trade liberalising measures.

Ministers also adopted the "Declaration on an APEC Trade and Investment Framework" to advance APEC's role in trade and investment by engaging its members in both policy and facilitation matters. A Committee on Trade and Investment (CTI) was formally

established.

The report of the Eminent Persons Group (EPG) to the APEC ministers, "A Vision for APEC -- Towards an Asia Pacific Economic Community", issued in October 1993 was presented by its Chairman, Dr. C. Fred Bergsten. The report emphasised that APEC had to accelerate and expand cooperation in order to respond to three threats to the continued vitality of the region: erosion of the multilateral global trading system; evolution of inward looking regionalism; and risk of fragmentation within the Asia Pacific region. The EPG recommended APEC to undertake initiatives in four areas: regional and global trade liberalisation; trade facilitation programs; technical cooperation; and institutionalisation of APEC.

The APEC Informal Leaders Meeting, proposed and hosted by the US President, Clinton, took place on 20 November 1993 at Blake Island and was attended by leaders from all APEC member economies except Malaysia. The leaders issued an "Economic Vision Statement" which contains three main components. The *first* is a affirmation of the importance of an open multilateral trading system and the determination of Asia Pacific leaders to lead the way in taking concrete steps to produce the strongest possible outcome of the Uruguay Round. The *second* is a vision of "a community of Asia Pacific economies": (a) which is based on the spirit of openness and partnership; (b) whose dynamic economic growth contributes to an expanding world economy and supports an open international trading system; (c) where trade and investment barriers continue to be reduced; (d) where the benefits of economic growth are shared by the people; (e) where education and training are improved; (f) where goods and people move quickly and

efficiently because of advances in transportation and telecommunication; and (f) where environment protection is improved to ensure sustainable growth and to provide a more secure future for the people. The third is a list of initiatives, which includes:

- a. Convening a meeting of APEC Finance Ministers to discuss broad economic issues including macroeconomic developments and capital flows;
- b. Establishment of a Pacific Business Forum to identify issues APEC should address to facilitate trade and investment in the region;
- c. Establishment of an APEC Education Program to develop regional cooperation in higher education;
- d. Establishment of an APEC Business Volunteer Program to promote human resource development;
- e. Convening a meeting of APEC Ministers involved with small and medium business enterprises to discuss ways to improve the environment for the cooperation of these enterprises;
- f. Development of a non-binding code of principles covering investment issues;
- g. Development of APEC's policy dialogue and action plan for conserving energy, improving the environment and sustaining economic growth;
- h. Establishment of a Technology Transfer Exchange Centre to facilitate the exchange of technology and technology management skills among APEC members.

The leaders also agreed to meet again in Indonesia in 1994. The EPG Report proposed that the leaders meeting be held once in three years. However, as stated by Fred Bergsten (1994), it is to be expected that after

Seattle such a meeting will be held annually. He argued that this decision would assure that the leaders continue to focus on APEC and get to know each other better, that the president of the United States travel to Asia at least once a year, and that all APEC members broaden their perspectives and that ministers and officials be fully energised to carry out their leaders' instructions. This "upgrading" of the APEC process could contribute to resolving of bilateral disputes in the region and its institutionalisation should "increase the momentum of community building in the region."

He further pointed out that the Seattle meetings showed that "the leaders were far more ready than their ministers, who in turn were far more ready than their senior officials, to adopt and pursue visionary goals." In addition, Bergsten noted the importance of the proliferation of meetings among APEC ministers: in 1994 these included meetings of finance ministers, of environmental ministers, of trade ministers, and of ministers in charge of small and medium enterprises. Bergsten concluded that "leaders in Seattle began the process of converting APEC from a purely consultative body into a substantive international institution."

This conclusion does not appear to be supported by all APEC members. At the PECC X General Meeting in Kuala Lumpur in March 1994 and in an interview with the Australian Broadcasting Corporation (ABC), the Malaysian Minister for Trade and Industry, Rafidah Aziz, clearly opposed this transformation when stating that: "APEC is slowly turning out to be what it wasn't supposed to be, meaning that APEC was constituted as a loose consultative forum." (*New Straits Times*, 24 March 1994).

How should this statement be understood?

On an earlier occasion, when addressing a forum of Malaysian and Filipino business executives, Minister Rafidah Aziz stated that "Kuala Lumpur will oppose attempts to give APEC a formal structure because it will weaken ASEAN ... The moment APEC is institutionalised, ASEAN will be submerged." (*Jakarta Post*, 18 January 1994). After meeting with Presiden Soeharto during her visit to Indonesia, Minister Rafidah Aziz reported that Indonesia did not support turning the APEC forum into a formal and structured organisation and that President Soeharto was of the opinion that APEC should remain just a loose and informal forum because of disparities in the level of economic development among its members. (*Jakarta Post*, 24 January 1994).

ASEAN has been cautious about APEC from the beginning. As suggested by Tan Kong Yam et al. (1992), there is genuine concern that the vast disparities in income, technology and skill level among the APEC economies could lead asymmetrical dependence, heightened tension and North South polarisation within APEC. Discussions in the 1980s clearly showed that the ASEAN fears of dilution in a wider regional organisation and the concern of being dominated and overshadowed by the much larger economies have led to the insistence on the informal arrangements and non-institutionalisation of APEC.

The principles of ASEAN participation in the APEC process were jointly crafted by ASEAN members in 1989 and are contained in what is known as the Kuching Consensus. These principles are:

1. ASEAN's identity and cohesion should be preserved and its cooperative relations

with its dialog partners and with third countries should not be diluted in any enhanced APEC;

2. An enhanced APEC should be based on the principles of equality, equity and mutual benefit, taking fully into account the differences in stages of economic development and socio-political systems among the countries in the region;
3. APEC should not be directed towards the formation of an inward looking economic or trading bloc but, instead, it should strengthen the open, multilateral economic and trading systems in the world;
4. APEC should provide a consultative forum on economic issues and should not lead to the adoption of mandatory directives for any participant to undertake or implement;
5. APEC should be aimed at strengthening the individual and collective capacity of participants for economic analysis and at facilitating more effective, mutual consultations to enable participants to identify more clearly and to promote their common interests and to project more vigorously those interests in the larger multilateral forums; and
6. APEC should proceed gradually and pragmatically, especially in its institutionalisation without inhibiting further elaboration and future expansion.

These principles continue to be aired by ASEAN leaders and officials, including in an address by President Soeharto at an international conference in Bali as recent as in August 1993. Questions have been raised from within ASEAN itself whether this consensus still holds. However, even if these principles are adhered to there is sufficient room for ASEAN to participate actively and

constructively in APEC. Similarly, other members can further the process of regional economic cooperation even though APEC remains essentially a consultative forum.

There are many reasons why APEC is likely to maintain its character as primarily a consultative forum for some time to come. One important reason is the necessity for APEC at this stage to promote confidence building as its main task. The APEC process has many levels. Both the ministerial meetings and the informal leaders meeting are consultative in nature, in the sense that participants are not engaged in negotiations. However, the consultative processes at these level can produce initiatives as shown in Seattle. If translated into programs and implemented effectively, they will form the basis for a rich agenda for APEC. There is no reason to doubt that a consultative process cannot lead to the adoption and implementation of a meaningful agenda for regional economic cooperation. In other words, this APEC process can produce substance (Hadi Soesastro, 1994). A series of senior officials meetings (SOMs) will formulate and develop the "structure" for implementing initiatives and agreements made at the higher levels. In doing so, they will make use of the recommendations and results of the various APEC work projects as well as the recently established CTI. Further consolidations of work projects could lead to the development of other committees in the future. This would practically mean a further institutionalisation of the process.

The development of regional economic cooperation in the Asia Pacific region in general, and the APEC process in particular, needs to be guided by the wisdom that processes are more important than structures. This does not mean that institutional struc-

tures are unimportant; however, such structure should be dictated by what is required by the process. APEC's form today is totally logical and that it will be evolving. The "beauty" of the APEC process is that it is continuously "injected" by a kind of freshness in each succeeding cycle by having the host of the ministerial meeting chair APEC and provide the necessary leadership. The host can, and indeed should, project its interest in and vision of APEC into the process. For instance, Indonesia as the 1994 chair of APEC has emphasised the need to promote developmental issues that would help raise the level of readiness on the part of the developing members of APEC to participate in a meaningful regional trade liberalisation.

Despite the occasional rhetorics, ASEAN is sufficiently pragmatic to accept a gradual institutionalisation of APEC. As stated by the Indonesian Foreign Minister, Ali Alatas, ASEAN should not oppose formalising of APEC but its members should not be too hasty in institutionalising the forum. "APEC should become an organisation with a secretariat and a codified set of rules and procedures in a gradual way like ASEAN." (*Jakarta Post*, 19 March 1994).

When the APEC finance ministers met in Hawaii in March 1994, ASEAN made it clear that such meeting should not be institutionalised. This consensus was reached in an ASEAN caucus and was supported by China and Japan. However, at the end of the meeting, the Malaysian Finance Minister, Anwar Ibrahim, explained that ASEAN would go along with the decision to meet again in Indonesia in 1995 because "we don't have very strong views on that." (*New Straits Times*, 21 March 1994). More recently, at the PBEC annual meeting in Kuala

Lumpur, Malaysia's Prime Minister, Mahathir, again stated the view that APEC should not be formalised, "but if it is the wishes of other members that it be strengthened, Malaysia would allow itself to be dragged along." (*Jakarta Post*, 24 May 1994). But how far is Malaysia or the other ASEAN members willing to go?

From Seattle to Jakarta

To some members of APEC, the pace of ASEAN's participation in APEC might be too slow. Indeed, the call to move APEC faster in the direction of its institutionalisation continues to be aired. Sandra Kristoff, Director for Asia at the US National Security Council, a person who has actively participated in APEC for many years, proposed that APEC should become a formal economic cooperation association. (*Media Indonesia*, 24 February 1994). Other alternatives were also proposed, one of which was to make APEC "a GATT for Asia Pacific".

When the United States assumed the 1993 chair of APEC, Acting Secretary of State, Lawrence Eagleburger, in a meeting with APEC senior officials in Washington D.C. in December 1992, proposed that the 1993 cycle be seen as a time of transition for APEC, namely to "move beyond the phase of institutionalising APEC to making it operational." In other words, he suggested that APEC be transformed to an organisational reality, an organisation that can produce cooperative solutions to our common regional problems. Specifically, he suggested that members should be able to envisage such things as:

- an APEC investment agreement;

- an APEC code of conduct for administrative measures;
- an APEC intellectual property agreement;
- an APEC customs cooperation treaty;
- an APEC dispute settlement mechanism;
- an APEC wide open-skies agreement in civil aviation; or
- an APEC agreement on trade in a particular goods or services sector.

There are a number of ways in which this suggestion can be pursued. As in the case of an APEC "agreement" in the field of investment, it can be based on an initial agreement of what constitutes a set of ideal principles. The agreement can be of a non-binding nature initially. It can be made binding but voluntary at a later stage and then be turned into a code. The alternative would be to adopt ASEAN's "6 minus X" principle, allowing members to opt out of APEC agreements when they are not ready as yet.

The former option may be preferred to the latter by Indonesia or other ASEAN countries. As suggested by Suhadi Mangkusuwondo (1994), the "Asian" approach is to agree on principles first, then let things evolve and grow gradually. This is in contrast to the "American" approach which is viewed by many in Asia as too legalistic and too institutional. He argued that "to start with legally binding commitments covering a wide range of issues, scares many people in Asia ...".

Some of the issues identified above as candidate for an APEC agreement are issues in the GATT and the forthcoming WTO (World Trade Organisation). The idea of a "ratcheting up" strategy in which APEC should take up issues that the Uruguay Round had dealt with but could not reach agreement -- or even to go beyond the scope

of the existing multilateral agreement -- does not appear to have received encouraging support from most developing members for fear that in the regional forum they are more prone for pressures by the larger countries than in the global, multilateral forum.

In addition, it should also be borne in mind, especially in the agenda setting of APEC that each member has a different interest in APEC and different expectations of what APEC's main function should be. However, it should be possible to combine a number of issues into a coherent APEC agenda. As will be proposed here, APEC should give equal attention to three main tasks. The first task is regional trade liberalisation. The second is trade and investment facilitation, and the third is development cooperation. These three main tasks, should form the agenda for APEC as recommended in the EPG Report. What needs to be stressed here is that the one task cannot be pursued in isolation from the other; they are interdependent. Indonesian officials, for instance, have made it clear that development cooperation programs are necessary in order that the weaker countries could increase their capabilities that enable them to participate more fully in regional trade liberalisation exercises. (*Jakarta Post*, 29 April 1994).

On regional trade liberalisation, Suhadi Mangkusuwondo (1994) is of the view that Indonesia would not be supportive of the idea of an APEC-wide preferential trading arrangement. One reason is political. However, more importantly is the view that the essential part of the APEC process is the encouragement of unilateral liberalisation that thus far has been the key to the region's economic dynamism. Thus, the question is how APEC could promote an environment that could sustain unilateral liberalisation by

members, which by its nature are non-discriminatory, are applied on MFN basis, and therefore are entirely GATT-consistent. In addition, this does not require negotiations. The wisdom, practicality, and feasibility of this strategy have been outlined by Ross Garnaut (1994). This is also entirely consistent with the meta-regime for Asia Pacific economic cooperation that has evolved over the past 15 years or so, and manifested in the concept of "open regionalism".

Aggarwal (1993) identified four schools of thought here, of which the currently dominant GATT-consistent school of open regionalism is one. The three others are: the pure GATT-ists; skeptics of open regionalism; and lastly, advocates of the Asian bloc. The pure GATT-ists are of the view that APEC would undermine GATT and that such regional arrangement would foster a fragmentation of the world economy into competing economic blocs. Advocates of the Asian bloc already see the trend towards regional blocs with the further expansion of the European Union and the NAFTA.

The proponents of open regionalism adopt a view of MFN which has been termed "inclusive MFN" where non-members can obtain the same benefits. This is distinct from an "exclusive MFN" that is the GATT norm, in which MFN is required only for members. In addition, the norm of reciprocity is diffuse (general give and take) rather than specific (direct balancing of benefits). Skeptics of open regionalism have argued that permitting diffuse instead of specific reciprocity will allow potential free-riders to benefit from APEC liberalisation. Fred Bergsten (1994) argued that the principle of inclusive MFN should be replaced by a "temporarily conditional MFN" which uses the negotiating leverage available to APEC

because of its large economic weight to obtain maximum liberalisation around the world. The issue of how "free trade in the region" will be achieved will need to be settled soon by APEC members. However, APEC should not become a single-issue organisation; trade liberalisation should not be the only agenda of APEC.

In view of this discussion, APEC's institutional structure can be simple. It has already established a Committee on Trade and Investment (CTI) that could further promote activities that support trade and investment liberalisation. A second committee, the Committee for Economic Trends and Issues (CETI) could be established and would focus on the more structural issues affecting trade and investment flows in the region. A third committee, the Committee for Development Cooperation (CDC) would provide an umbrella and give greater focus to the APEC work projects that thus far appear to lack a coherent developmental objective. This balanced three-legged structure can accommodate the interests of APEC's diverse members. Finally, all members should accept the fact that, as shown by Aggarwal also, the APEC regime will be a weak regime. It is weak because of the region's diversity and because it is market driven.

Be that as it may, it is useful, and perhaps, necessary for APEC to have a vision. A vision gives its participants a sense of direction, a sense of mission, and a basis for drafting a common blueprint. Since November 1993 APEC has begun to develop a vision of "free and open trade in the Asia Pacific", based on the recommendation of the EPG.

It is not clear whether this vision has been formally adopted by APEC, but in their Economic Vision Statement the APEC

Leaders "welcome the challenge ... to achieve free trade in the Asia Pacific." This is sufficient to get the ball rolling. More importantly, the EPG was asked to continue with its task, particularly "to present further more specific proposals on how the recommended long-term vision might be realised".

It is almost certain that the APEC Vision of free and open trade in the region in the year 2020 will be endorsed by APEC ministers and leaders in their coming meeting in Indonesia in November 1994. Perhaps they will not dwell on the details as to how free and open trade will be achieved and will leave this to further deliberations. It is certain, however, that the question of a different pace for the developing countries will be addressed since its importance has been indicated by President Soeharto (*Jakarta Post*, 18 September 1994). There are other important principles to achieving free trade in the region that may or may not be settled at the meetings in Indonesia. It may be useful to examine them in relation to the various possible ways to achieving the APEC Vision.

To begin with, it may be useful to define what constitutes free and open trade in the region. Is it realistic to expect that tariffs and non-tariff barriers be totally eliminated? If Singapore is taken as an example of a country that virtually practices free and open trade, the following criteria can be offered: (a) that 99 per cent of tariff lines under the nine-digit Harmonised System (HS) level be bound at a zero rate; (b) that the average MFN tariff rate not exceed 0.5 per cent and that import tariffs be imposed only for health, social and environmental purposes; (c) that NTBs (only in the form of import bans) be applied only for reasons of national and public security as well as environmental protection; and (d) that the services sectors

be fully open with an allowance for the imposition of very limited restrictions for reasons mentioned above. Singapore has reached this degree of openness through unilateral liberalisation.

The immediate question is whether APEC should from the outset agree on a set of criteria of free and open trade in the region and how this can be negotiated. The answer may depend on the modality for achieving free and open trade in the region that will be agreed upon by APEC. The following is brief examination of the various options.

The first option (Option I) amounts to an APEC support for continued unilateral liberalisation by its members. Consultation, co-operation and trade facilitation efforts among APEC members could help ensure that they fulfill their Uruguay Round liberalisation commitments. APEC could then encourage its members to accelerate implementation of their commitments and undertake further liberalisation beyond their Uruguay Round commitments. Here, peer pressure will be the main instrument. Perhaps this approach will be accompanied by some commonly agreed progressive liberalisation schedule which functions as a guidance for members' unilateral liberalisation efforts. This option can be seen as the "softest" approach towards free and open trade in the region.

The second option (Option II) is a modality for regional trade liberalisation which has been originally conceived of by the proponents of the concept of "open regionalism". Under this modality APEC initiates concerted reduction of barriers and extends this regional liberalisation to non-members on an unconditional MFN (most favored nation) basis. This approach can be imple-

mented on a sector-by-sector basis. The main issue here is on the selection of sectors to be included in this regional initiative.

The third option (Option III) is that of a free trade area (FTA) in which APEC members negotiate and implement regional liberalisation under Article 24 of the GATT. It has been made clear at the time of its establishment in 1989 that APEC will not be transformed into a trading bloc and therefore, this option cannot be considered unless APEC leaders return to the drawing board and seek a new consensus.

The EPG has offered an approach towards free and open trade in the region (EPG Option) which includes Option I and some mixture of Options II and III. The EPG proposal strongly supports further unilateral liberalisation. This is clearly stated in pages 27, 30 and 42 of the EPG's Second Report (APEC, 1994). In addition, it proposes that members undertake regional liberalisation -- called APEC liberalisation -- that can be extended to non-members only on a mutually reciprocal basis (page 30). It further suggests that individual members can unilaterally extend its APEC liberalisation to non-members on an unconditional MFN basis (page 33).

This proposal requires the following clarification: if this APEC liberalisation is undertaken under Article 24 of the GATT what distinguishes it from the FTA approach? If, however, this APEC liberalisation is not undertaken under Article 24 of the GATT isn't GATT illegal?

The EPG proposal also suggests a three-way differentiation in the timetables in which the advanced economies eliminate barriers most rapidly (10 years), the NIEs having an intermediate timetable (15 years) and the developing members eliminate their

barriers over a 20-year period (page 40). What is left ambiguous here is whether during the process there will or will not be discrimination amongst APEC members. The Report recommends that "flexible implementation" should become a principle in carrying out APEC's liberalisation in the sense that members liberalising at a pace slower than the general liberalisation schedule will not receive reciprocal benefits (page 43). If this is applied the region may end up with a scheme that contains a three-stage FTA. In a recent APEC meeting in Yogyakarta Fred Bergsten, EPG's Chairman, stated for the record that the EPG proposal for liberalisation among APEC members was on an MFN basis (non-discrimination).

Other options can be devised. In the final analysis, however, the fundamental questions that our APEC leaders are confronted with are the following:

- (1) is the region only ready to accept Option I or is it willing to go beyond this and undertake negotiated regional trade liberalisation?
- (2) should regional trade liberalisation be extended to non-members on an unconditional (Option II) or unconditional MFN basis (Option III and the EPG Option)?

Unless these questions are unambiguously answered it will not be easy to agree on the modality to achieving APEC Vision of free and open trade in the region. It seems that there is as yet no consensus within APEC on those issues. Even within ASEAN there is a wide divergence of views. Indonesian Minister Moerdiono recently explained to President Soeharto that free trade in the region means free trade that would benefit all countries in the world and not free trade among APEC members only (*Kompas*, 1 September

1994). This means that APEC liberalisation should be extended to non-members on an unconditional MFN basis.

Malaysia's Prime Minister Mahathir also strongly opposed the creation of a trade bloc (*Jakarta Post*, 18 September 1994). However, Singapore's Prime Minister Goh Chok Tong believed that APEC liberalisation should be extended to non-members only on the basis of reciprocity or conditional MFN (*Jakarta Post*, 8 September 1994). In view of this it is not surprising that in their recent meeting President Ramos of the Philippines and Thailand's Prime Minister Chuan proposed that an informal meeting of ASEAN heads of governments be held prior to the APEC leaders meeting to formulate ASEAN's common position on APEC's future development (*Jakarta Post*, 10 September 1994). This is certainly in ASEAN's own interest but it will also be critical to APEC's success.

A Final Note

APEC's 2020 Vision of free and open trade in the region can be achieved through confidence building and workable, pragmatic consensus. If the eight principles that are contained in the Report's Executive Summary are followed through to their logical consequence, the implementation of APEC trade and investment liberalisation can be pursued through the "soft path" rather than the "hard path" which involve exhortations, application of threats, discrimination, and a lot of unproductive negotiations.

The task immediately ahead for APEC trade liberalisation efforts is to ensure the ratification of the Uruguay Round outcome

and the successful launching of the World Trade Organisation (WTO), the accelerated implementation of Uruguay Round agreed liberalisation by APEC members on an unconditional MFN basis as well as to ensure the entry of both China and Taiwan to the

WTO as founding members. And finally, APEC should encourage the European Union to work constructively with the Asia Pacific towards global liberalisation. The best way to do so is to lead by example, not needless confrontation.

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Regionalism and Its Implications for the Asia Pacific*

Djisman S. Simandjuntak

APEC is unique in the history of regional cooperation for a number of reasons. Its members represent an extreme diversity in terms of civilisation, political systems, and stages of development. To some people it is the rise of Asia that is peculiar in what is happening today in the Asia Pacific.¹ Champions of cooperation in politics, business and academia have to innovate a new framework with a view to making APEC a tail wind rather than a head wind to the strong forces of global integration. Such a pro-globalisation regional undertaking is oftentimes called open regionalism which is a *contradictio-in-terminis* in the traditional vocabulary of regional integration.² However, discontinuity is in the nature of evolution. If Article XXIV of

GATT were to be formulated today, it would leave a wide room for an experimentation with hybrid schemes.

The core of this paper is a discussion of possible routes to open regionalism. Before doing so, however, the gigantic forces of integration in the world economy will first be discussed. Indicators of integration will be sketched in section two followed by a speculation about the future of the world economy in terms of major contours. The message is clear. To remain open and thereby be fair to its surrounding APEC has to be creative and cautious at the same time. Allowing APEC to develop into a preferential area of the traditional sort would complete a defacto fragmentation of the world economy into two super blocs in the course of which multi-lateralism is likely to be eroded rather than strengthened. The problem is that a preferential arrangement is a very tempting idea whenever two or more countries enter into a regional exercise.

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¹See Yoichi Funabashi, "The Asianization of Asia" in *Foreign Affairs* 72, no. 5 (November-December 1993): 75-85.

²Among the attempts to conceptualise open regionalism see Duk-Choong Kim, "Open Regionalism in the Pacific: A World of Trading Blocks?" *American*

Economic Review, AEA Papers and Proceedings 82, no. 2 (May 1992): 79-83.

The Fall of Hostile Borders

Theoretically regional arrangement is conceived as a second best approach to liberalisation. Had unilateral and or multilateral initiatives progressed effectively in bringing down barriers to transborder economic exchanges, regional arrangement would have been a redundancy. In reality, however, hysteresis seems to have afflicted regionalism. The mutation of the European Communities into an economic union, the founding of NAFTA and AFTA occurred at a time when the Uruguay Round was approaching its conclusion. Indeed, the idea of free trade as a possible component of APEC was floated for the first time after the conclusion of the Uruguay Round, though the basic idea about free trade in this region with a more limited country coverage had been floated several times. An ASEAN-US FTA is mentioned as the ultimate goal of the Framework Agreement recommended in the executive summary of the ASEAN-US Initiatives Report.³ Seen from economics perspectives there appears to be no compelling reasons for the revival of regionalism. A number of forces have been working together in a unique way to give worldwide integration a very good chance.

Many governments in the developing world have dissociated themselves from the inward-looking policy of the 1960s and 1970s though the reasons for doing so vary from one country to another. In the case of ASEAN countries it was the decline in oil price in early 1982 that forced governments

to adopt a new policy direction. In Latin America policy change was closely related to debt restructuring. The resulting policy convergence is striking, however. Macroeconomic prudence, marketisation of businesses which were under government monopoly as well as privatisation of some state enterprises, lower trade barriers and an increasingly competitive investment policy became the common features of policy making.

As the reform leads to an improved economic performance it enjoys support among a wider group of constituencies. To illustrate, average growth rates of GDP in 1990-1993 were substantially higher in China, Malaysia and Indonesia than in 1986-1989 and the previous 10 years. Mexico and Chile exhibited a stronger growth of GDP in the seven years period ending in 1993 than the decade ending in 1985. The demonstration effects of this improved performance inspire other the developing countries such as India to consider policy change of their own. Indeed, a lasting reform in Southeast Asia and Latin America will make it a necessity for developing countries in other parts of the world to swim with the current of economic reform given that isolation has become a non-option.

Another impetus to globalisation originates in the collapse of centrally planned economies. This collapse did not occur all of a sudden. Since the mid-1960s signs of eroding performance had been apparent in these economies. The imperative or mandatory planning could only work in solving simple quantity equations. It sows its own demise in that it perpetuates a simple structure of supply at a time when consumers look for a more diversified bundle of goods and services. The search by economists and

³See Seiji Naya, Kernial S. Sandhu, Michael Plummer and Narangchai Akrasancee, *ASEAN-US Initiative, Assessment and Recommendation for Improved Economic Relations* (Singapore: Institute of Southeast Asian Studies, 1989), xxx-xxxi.

politicians including Mikhail Gorbachev, for "market socialism" led to no where. What is needed is a systemic change rather than an internal reform of centralism. Such a turn around requires among other things an integration with the world economy which can serve as a source of policy ideas, physical capital, financial resources and human capital on the one hand and as a more attractive market for the few goods and services in which the reforming economy enjoys an international advantage.

First mover in this respect is China which in the course of the last 15 years has abandoned some of the worst disincentives of economic centralism with an astonishing result. China seems to have reached a point of no return as far as its integration with the world economy is concerned. In fact, it has nowadays been an addictive habit to portray China as an emerging superpower in spite of the ambiguous position taken by its government on issues such as that of private ownership.⁴ The opening of Vietnam occurred with a considerable delay. However, the result has also turned out to be impressive which in turn will facilitate a durable support to a deeper opening.⁵ The situation in East Europe has so far turned out to be a sad story. The combined GDP of Central Europe in 1993 was 27 per cent smaller than in 1989 and that of former Soviet Union and the Baltic states was sliced by no less than 38 per cent in the same period. Inflation rate in the former Soviet Union was more than

1,200 per cent in 1992 and 1993 though it is expected to go down to 457 per cent in 1994 and 83 per cent in 1995.⁶ Reform is very difficult to sell to public under these circumstances. Nevertheless, three points need to be made at this juncture. *First*, the emergence of private enterprises through the removal of entry barriers and privatisation can be seen as a foundation for future growth. *Second*, the plague has tended to ameliorate. *Third*, proximity of these transitional economies to the two centres of the world economy may soon turn out to be a unique asset. Their western part can hope to benefit from integration with Western Europe while their eastern part integrates with Asia Pacific. While policy reversal is possible, especially in Russia, its probability of occurrence does not seem to be higher than that of a lasting reform.⁷

Policy changes in the developed countries are more difficult to judge in terms of their impacts on the degree of world integration. On the one hand the financial system in these economies was subject to sweeping reforms in the 1980s with the obvious consequence of a deepened integration of the world financial system. Rapidly growing services, notably telecommunication and transportation were deregulated or privatised in the course of which transborder flows of services and capital were given a strong push. While co-ordination has remained elusive, macro-economic policy dialogue has occurred more often which occasionally brought about a surprising result such as the exchange rate realignment in 1985. On the other hand, the

⁴See for example William H. Overholt, *China: The Next Economic Superpower* (London: Weidenfeld & Nicolson, 1993).

⁵Vietnam's macroeconomic performance has been strong and improving in recent years. See Asian Development Bank, *Asian Development Outlook* (Manila, 1993): 125-129.

⁶IMF, *World Economic Outlook*, May 1994.

⁷See Daniel Yergin & Thane Gustafson, *Russia 2010 and What it Means for the World* (New York: Random House, 1994).

leaning toward managed trade persists. Though not primarily meant as an instrument of protection the deepening of integration within the European Union and the formation of NAFTA in North America imply an improved treatment of intra-regional trade in these two areas. Cases of countervailing and antidumping investigation increased strongly. In the United States, for example, the number of antidumping investigations in 1991/1992 and 1992/1993 was substantially higher than the average number in the whole of 1980s. Outstanding countervailing duty orders tended to fluctuate but averaged 85 a year between July 1982 and July 1993.⁸ Having finally discovered the damaging effects of voluntary export restraints the United States has innovated a new trade policy instrument which is called "Voluntary Import Expansion" and aimed at an expanding export rather than a suppressed import from the viewpoint of imposing country. Trade dispute has indeed become a permanent feature of the bilateral US-Japan relation in recent years.

In their relations with developing countries both Western Europe and the United States have campaigned for the linking of development assistance and trade on the one hand with an array of fundamental issues such as human rights, workers' rights, democratisation, defence spending and environmental protection on the other. The potential disintegration that can arise from this unmanageable linking of issues is scary. However, it is highly impractical technically speaking. Hence, governments are more likely to deal with these emerging issues in their own respective merits rather than mixing them with trade and investment

issues in an unproductive way.⁹

Worldwide integration must have been harmed by managed trade in one way or the other. However, other forces of integration have more than compensated the negative effects of managed trade as will be discussed later. What is more, the leaning toward managed trade cannot obscure the general commitment of developed countries to open trade. The agreements reached in the Uruguay Round on market access increases, services liberalisation, TRIMS, TRIPS, the strengthening of rules and the establishment of WTO may have not been as progressive as some people expect. Nevertheless, they do indicate an enduring commitment to multi-lateral liberalisation among an increased number of governments. Assuming an effective implementation, these agreements will result in a changed structure of comparative advantages among economies. Beyond the trade effects which are usually seen as the prime benefit of trade liberalisation, cross-border flows of investment can be expected to increase further. In other words, policy changes in the developed economies do still work in favour of integration in spite of managed trade and the heating disputes associated with it.

Private Sector's Roles in Worldwide Integration

Before turning to APEC's alternative modes of cooperation a brief discussion of integration as it is perceived and vigorously

⁸GATT, *Trade Policy Review Mechanism* (Geneva: United States, 1994), 51-64.

⁹Robert Z. Lawrence, *Labor Market Performance and Standards in the OECD: The Concern about Globalization*. Paper presented at "The Informal Policy Dialogue on Globalization and Regionalization", organised by the OECD Development Centre, Paris, 28-29 April 1994.

pursued by the private sector is needed. This is particularly true in the context of Asia Pacific in which a high degree of integration has occurred under the leadership of the private sector.

There are a number of strong forces that work favourably to worldwide integration other than the reduction of artificial barriers. Knowledge about and familiarity with close and distant neighbours appear to be increasing exponentially over times thanks to an ever more diversified and powerful media of information transmission and processing. Awareness of the gap separating oneself from a more developed ones triggers the process of catching up in the course of which all kind of channels of integration develop. The continuous accumulation of knowledge keeps adding to the diversity, capacity, speed and affordability of technologies, resulting in a set of formidable forces of transborder integration even with the existence of artificial barriers. Higher speed transportation means with an ever growing capacity, advances in information and telecommunication technologies, new materials with superior properties, advances in biotechnology and the synergistic combination of all these technologies are perhaps the most powerful engine of worldwide integration.

Technology change necessarily weakens the comparative advantage of an economy in industries where the new technology is of no use. The result is the familiar production relocation and other forms of outsourcing. A number of technologies add to the tradeability of goods, services including a wide range of human services, and capital. As new knowledge and technology come on stream, many of the old ones become a commodity or gain the property of a public good. Another impact of technology change

with an important bearing on worldwide integration is demassification of production works which gives rise to what may be called "intra-product" division of labour across borders. At the same time, an ever growing diversity and stock of knowledge limits the effectiveness of control model of management. More and more multinationals have shifted to a commitment model which in turn provides a fertile soil for cross-border cooperation or alliance as it is known more popularly. In short, the factors behind worldwide integration are much more diverse than what governments are doing in trade and investment policy. Without dramatic policy changes, integration in the Asia Pacific has proceeded rapidly.

Some statistics may help to better understand the depth of integration that has taken place among the Asia Pacific economies even in the absence of regional arrangement. Intra-PECC export rose from 57 per cent in 1970 to 69.7 per cent in 1992 while import rose from 62 per cent to 70.4 per cent in the same period.¹⁰ Interestingly it is the United States, Canada and Mexico or North America, Australia and New Zealand or CER and China in which "regionalisation" of trade increased the strongest while some of the fast growing Asian economies, notably South Korea and Taiwan were experiencing "deregionalisation" during this period of 22 years. However, the fact remains that intra-regional trade has reached a very high level in the Asia Pacific. An increasing portion of this trade is intra-industry in nature. Nearly 51 per cent of US import from and 48 per cent of its export to PECC economies in 1992 were products belonging to SITC 7 (Machinery and Transportation Equipments). Japan's intra-PECC trade is

¹⁰PECC, *Pacific Economic Outlook 1994/1995*.

clearly more asymmetrical. SITC 7 accounted for 69 per cent of its total export to PECC but only 18 per cent of its import.¹¹ Within this intra-industry trade a growing portion has occurred between related firms.¹² This brings us to the issues of foreign investment.

The world is currently populated by around 37,000 transnational corporations (TNCs) with 200,000 subsidiaries, controlling around \$2 trillion stock of inward investment and a combined sales of over \$5 trillion. Each year the stock of investment increases by around \$200 billion, strengthening further the basis for worldwide integration. However, TNCs and their investment are distributed in a very uneven way. By far the greatest number of TNCs originate in either Western Europe or the Asia Pacific. The same applies to the subsidiaries. In terms of inward stock in 1992 these two regions accounted for 43 per cent and 46 per cent respectively, and in terms of outward stock they accounted for 52 per cent and 47 per cent respectively.

The picture of foreign direct investment underwent some important changes in recent years. *There* was a strong increase in investment flow which peaked at \$208 billion in 1990. There was a decline afterward, but recovery has again occurred in 1993. *Second*, Western Europe has gained a share in outward stock rising to 52 per cent and a share in inward stock increasing to 43 per cent in 1992 at the cost of the Asia Pacific. *Third*,

¹¹OECD, *Foreign Trade By Commodities 1992*, own calculation.

¹²See William E. James, "Changing Patterns of Trade in Goods and Services in the Pacific Region: Market-Driven Economic Integration", *Business Economics* (April 1994): 14-20.

within Asia Pacific, China and the United States have gained very strongly in terms of inward stock while Japan has become an important source with a worldwide share going up from 3.3 per cent in 1980 to 13 per cent in 1992. Some other Asian countries have also joined the club of outward investors with a combined share of 2.7 per cent in 1992 compared to only 0.3 per cent in 1980. *Fourth*, the inward stock of direct investment has generally increased very strongly in Asia Pacific economies between 1980 and 1992. China ranks highest followed by Thailand, Hong Kong and Chile. But other countries such as Singapore, the United States, Indonesia, Malaysia, Taiwan and Mexico have also performed above world average.¹³ This wide network of cross border investment and the vast networks of non-equity inter-firm relations will work as a strong force of Asia Pacific integration even if governments sometimes find it very difficult to agree on certain issues.

There is another important force of integration in the Asia Pacific that needs to be taken into account. Thanks to the combination of favourable growth, political opening and booming international business, the Asia Pacific has experienced a fast growing movement of people in recent years. Observers are very upbeat about the future of transpacific travel as well as travel within each of the two ends of the Pacific. While worldwide air travel is projected to grow by 4-5 per cent a year in the next 10 years or so, Asia Pacific is expected to exhibit an annual growth rate of 8-10 per cent.¹⁴ With this

¹³United Nations, *World Investment Report 1994* (New York and Geneva, 1994).

¹⁴See Michael Mecham, "Doubling of Asia's Growth Will Strain Area's Facilities", in *Aviation Week and Space Technology* (June 1, 1992): 20-21.

massive movement of people the spreading of knowledge about different aspects of life will accelerate, adding further to the discovery of the economic potential of the region.

Since APEC designs of cooperation are meant to serve the 21st century, an understanding about future scenarios is important. Some possibilities can at least be mentioned.¹⁵ On the positive side strong growth is likely to sustain in China and the ASEAN-4, thanks to the learning process they have gone through over the last decade. The NIEs may experience a decelerating growth, but are likely to enjoy a higher growth relative to other countries with similar income level. Indochina, especially Vietnam may join the “flying geese formation”. The same applies to Far East Russia which can serve as one of the most important suppliers of industrial resources to the Asia Pacific. Speculating on the future of growth in the United States and Japan is more difficult. On the one hand, long term trends of economic growth has tended to decelerate since the 1960s. On the other hand, long-term rebounding is not totally impossible. The United States has recently experienced a strong growth. The new growth theory which centres on human capital rather than physical capital argues, indeed, that permanent growth is conceivable thanks to the disputable existence of increasing returns of certain components of the human capital. In other words, Asia Pacific does have a chance to maintain a vigorous growth even beyond the year 2000.

Uncertainty is in the nature of any change, including economic development.

¹⁵See Marvin Centron and Owen Davis, “Trends Shaping the World”, *Futurist* (September-October 1991): 11-21.

Asia Pacific is by no means an idyllic region. Given its extreme diversity, the region contains an enormous potential of disputes. The occidental values may indeed clash with Asian values while the two sub-regions deal with sensitive issues such as the linking of trade and investment with human rights, democratisation, workers’ rights and environment. Asians are much more reserved than North Americans to include “behind-border issues” in trade and investment talks and negotiations. The most dramatic dispute on current trade is in fact waged between the two key economies in the Asia Pacific. Should this dispute become a never ending story in spite of GATT and APEC, proponents of a separate grouping in Asian Western Pacific may gain in popularity. Furthermore, some Asian countries still live in a prolonged transition which may end as a sad story with possible spillovers on their respective neighbours. China is prominent, but not the only in this respect. Even some borders are yet to be settled in some parts of Asia. Notwithstanding the strong glues resulting from the ever growing interdependence of their economies, pragmatism and gradualism should be among the core features of Asia Pacific regional cooperation.

Alternative Modes of APEC’s Trade and Investment Cooperation

Like all regional groupings APEC is an evolutionary process. The European Union was not built in one day. Indeed, united Europe as a vision has lasted more than a thousand years. Tens of European regional initiatives emerged and dissappeared in the first two decades of this century, stumbling on political rivalry and refusal to wave the

precious right for MFN.¹⁶ It was a wish to deprive war of one of its main ingredients that finally persuaded Europeans to bring coal and steel under a regional management. While the common market was completed ahead of schedule, progress was lacking between the end of the 1960s and mid-1980s apart from the extension of the common market. Yet, Europe or at least Western Europe is much more compact and homogeneous compared to the vast Asia Pacific in which history of commonalities is yet to be made.

Before APEC, numerous forums have been founded in the Asia Pacific as an outgrowth rather as a precondition for a flourishing economic development. PECC is undoubtedly the most comprehensive among them in terms of membership and issues covered. Through an extensive networking of officials, businessmen and researchers in form of task forces awareness of commonality of interests and understanding of differences has been forged among a widening group of people. Visionary statements are usually made during General Meeting which is held regularly. From the outset it was agreed that any form of regional cooperation in the Asia Pacific should be based on openness or non-discrimination. This rejection of bloc formation is well reflected in the works of PECC. The Trade Policy Forum for example was basically a supporter of multilateralism with the conclusion of the Uruguay Round being its main concern, though it later on includes trade facilitation in its deliberation.

Some businessmen were unhappy about

¹⁶See Tribor Scitovsky, *Economic Theory and Western European Integration* (London: Allen & Unwin, 1958).

the PECC process and started asking for concrete result in form of business deals. Some politicians also found PECC too slow, notably former PM Robert Hawke who floated the idea of APEC as a forum among governments. Malaysia's Prime Minister Mahathir Mohammed proposed the formation of EAEG instead. This latter idea received a cool response from Asians and a fierce reaction from some Americans. Japanese, whose position is undoubtedly crucial to any meaningful cooperation in the Asia Pacific prefers to keep quiet, however. This rendezvous clearly shows the great difficulties involved in any search for a meaningful consensus on regionalism in Asia Pacific.

In terms of substance APEC's trade and investment cooperation which is aimed primarily at freer flows of trade in goods, services and investment can take different modalities. One of the most obvious modality is to strengthen APEC as an active lobby for multilateralism. It was perhaps the progress made in the GATT to progressively cut tariffs rather than the progress of European regionalism that enabled Europe to recover from the damages afflicted by the two world wars. As conditions normalised in the sense of Western Europe losing the privilege of being granted more favourable treatment by the United States compared to what they offered in return, preferential treatment among each other seems to have helped forge an inward orientation among European businessmen. In contrast, Japan has firmly adhered to a global orientation with the well-known result of Japan attaining global excellence in one industry after another. Taiwan, South Korea and Singapore are likely to repeat what Japan has accomplished.

This comparison between Western Europe and Japan should lead one to the belief that global trade is a better trade. This is increasingly so in view of the fact that the flows of ideas, goods and services are occurring at a higher speed, declining costs. Under such circumstances global factor and goods markets are necessarily larger than even the largest regional market. What is a questionable is the need for an APEC or any other regional forum which is primarily designed as a force for multilateralism. Such an idea is not void of substance, however. When Europe was the growth centre of the world it was there where most trade disputes occurred. It was also there where the foundation of multilateralism was laid down, namely during the Berlin Conference. Given the ascension of Asia Pacific to the centre of world growth, it will also be in this region where the most heated trade and investment disputes are going to be fought, the settlement of which is best sought within a multilateral framework. Therefore, Asia Pacific will have more and more reasons to care for a durable multilateralism. Meetings among senior officials, ministers and leaders can be very instrumental to keeping commitment alive to multilateralism and to build confidence about its ability to spread the fruits of development across the globe. GATT 1994 and the WTO are only an episode in multilateralism. Even under the best scenario of their implementation a lot more are yet to be done in terms of trade and investment liberalisation. An obvious challenge, for example, is how to get rid of "tariff peaks" which are found in all tariff schedules as a step toward a uniform protection.

Unilateral liberalisation is clearly the most tangible progress in the evolution of trade and investment policy making in the

Asia Pacific of the last decade or so. Reciprocity was not in the mind of China, Indonesia or Malaysia when they relaxed their respective trade and investment policy. The record so far has been good in that the steps taken have resulted in an improved trade balance rather than the other way around. However, there are some reasons to doubt on the long-term sustainability of unilateral liberalisation in a country where domestic market is large or perceived to be so.

First, as the most restrictive and controversial parts of trade and investment measures have been removed, the incentive for deepening liberalisation is likely to weaken, partly because of the smaller gains associated with a liberalisation which starts from an already low level of protection. *Second*, as domestic market gets larger, policy makers are more likely to require reciprocity while dealing with trade and investment issues, especially if reciprocators enjoy the upper hand elsewhere. *Third*, unilateral concessions are vulnerable to changing mood of policy makers who can come and go anytime. Hence, in an interdependent world complementary institutions are needed to reduce the uncertainty associated with unilateral concessions. The best complement one can conceive of is multilateral liberalisation. Therefore, APEC can contribute to the prosperity of its members, if it can function as a champion of multilateralism on the one hand and as a facilitator of unilateral initiatives on the other.

"Inter-regional" cooperation or networking between sub-regional groupings can also be an element in any APEC design. Before APEC existence, sub-regionalism has flourished in the Asia Pacific. Australia and New Zealand have long sought to integrate

their economies, first under NAFTA (New Zealand-Australia Free Trade) which failed to pass the test of Article XXIV of the GATT and more recently under ANZCERTA. AFTA and NAFTA are also facts of life APEC has to live with. A number of new sub-regional groupings in continental Southeast Asia and Northeast Asia are currently under discussion.¹⁷ No one can deny these groupings the rights of existence. However, because of this potential for the proliferation of sub-regional groupings it will be the more important for Asia Pacific to caution against exclusive trade and investment blocs irrespective of geography and stages of economic development. Even existing regional groupings are well advised not to perpetuate the preferential margin they now plan to grant to their respective members. The difficult question is the extent to which APEC can be instrumental to keeping sub-regional groupings consistent with the foundation of open regionalism, namely loyalty to non-discrimination. APEC would become a very bad example, if it is navigated to the port of a preferential area of its own. On the other hand, a clear commitment of APEC leaders to an open trade as may be reflected in a prompt fulfillment of the commitments made in the Uruguay Round would make sub-regional grouping less compelling. As the process goes on leaders in the existing sub-regional groupings may see the merits of withdrawing the most discriminatory elements of their respective preferential arrangements which are likely to end up in a sub-regional orientation.

As mentioned earlier the temptation of a preferential arrangement is hard to resist in any regional exercise. It is nevertheless surprising that the EPG in its second report has recommended a trade and investment arrangement which essentially is a preferential trading area, considering the pledge made by governments in the region not to enter into an exclusive bloc. According to this report APEC Free Trade and Investment which is proposed to be launched in 2000 will have the following basic features: (i) a transition of 10 years for developed countries, 15 years for the NIEs and 20 years for developing countries; (ii) regional reciprocity in the sense that margin of preferences is to be granted only to countries who themselves are willing to make concessions; (iii) comprehensive in terms of trade coverage following the development in the GATT; (iv) conditional extension of benefits to the rest of the world as far as APEC as a group is concerned; and (v) freedom of individual members to extend the concessions made in the framework of APEC to the rest of the world, conditionally or unconditionally.¹⁸

Announcing APEC Free Trade at this point of time as proposed by the EPG appears to be unwise whatever the merits may be of keeping alive the pressure for liberalisation. First of all, doing so will mean breaking the Asia-Pacific consensus on non-discrimination. Admittedly, the principles of non-discrimination has already been violated through the adoption of CER, NAFTA and AFTA. However, that precisely is part of the reasons why it was argued earlier that APEC should encourage existing sub-regional

¹⁷See Chia Siow Yue, *Subregional Economic Zones in the Asia-Pacific*. Paper presented at "The 4th Joint Research Conference on Asia-Pacific Relations", organised by the Foundation for Advanced Information and Research, Beijing 14-17 September 1994.

¹⁸APEC, *Achieving the APEC Vision. Free and Open Trade in the Asia-Pacific* (Second Report of the Eminent Persons Group, August 1994), 35-49.

groupings to phase out in stages existing preferential margins rather than complicating matter by blanketing existing sub-regional preferential arrangements by another layer of preferences. Besides, size does matter in trade and investment. What is good for AFTA or even NAFTA may turn out to be harmful if applied to a much larger grouping. Asia Pacific appears to be too big to fit into the context of Article XXIV of the GATT.

Another important question relates to the readiness of APEC's individual members to achieve the vision of free trade through a negotiated preferential arrangement. As was touched upon earlier, Japan has never been an enthusiast in respect of regionalism. Malaysia's resistance against APEC at large is public knowledge even without preferential arrangement. Indonesia's experience with regional integration has been too short to provide a good lesson on how to go about a preferential APEC Free Trade. China's trade policy priority also does not seem to lie in regionalism. Even the United States with its new drive toward globalism may not be as interested in an early formation of a preferential APEC Free Trade as it appears to be at first glance, unless it is led to the belief that APEC Free Trade can be very instrumental to settling its disputes with Japan. In other words, pushing the idea of APEC as a preferential trading area at the present stage of development has a divisive potential which may become acute when officials negotiate on details.

Technicalities constitute another serious problem. An Asia Pacific preferential area would require a four-layer origin rules in many member countries: one for MFN, one for GSP, one for sub-regional free trade and

one for APEC. Considering that both NAFTA and AFTA are yet to be implemented, an immediate addition of APEC may amount to overstretching administrative capacity in a number of countries. Yet, little is known about the potential benefit of a preferential trading arrangement in a region where movements of factors, goods and services have enjoyed a defacto freedom and the commitment to multilateralism is getting stronger.

Tentative Conclusions

The old wisdom of non-discrimination which so far has spirited cooperation exercises in the Asia Pacific is a kind of a well-functioning antiques. Without making any claim about contribution, activists of Asia Pacific cooperation have proved to be right in their belief that multilateralism is still alive, if highly imperfect in many ways. The successful conclusion of the Uruguay Round in spite of its enormous issue coverage indicates that this route to free trade and investment is a viable one. The same applies to unilateral liberalisation which in reality is the most tangible progress in trade and investment policy making in recent years. There may be such a thing as "logistic curve" in the world of multilateralism and unilateral liberalisation. As more and more barriers have tumbled, more and more efforts may be needed to produce a certain level of liberalisation. Nevertheless, the curve is still positively sloped. Forces other than policy change are likely to create the necessary pressures for continuous liberalisation, however incremental.

Technically speaking there is no need for a preferential trading area as long as there is progress in multilateralism and unilateral

liberalisation. It is hysteresis rather than a solid policy assessment that works behind the recent proliferation of preferential arrangement. The intriguing question is the purpose of APEC, if it is primarily aimed at the strengthening of non-discriminatory routes to free trade and investment. The challenge is tough, and the pleading as tried in this paper is unsatisfactory. Nevertheless, an APEC which can serve as a force in keeping multilateralism and unilateral liberalisation progressing on the one hand and in attenuating the discrimination which is built in the existing sub-regional arrangements is something that the world will increasingly be needy of as it crosses into the 21st century.

Ironically, the challenge is left untouched, if one simply jumps to a discriminatory route as recommended by the EPG. Announcing such an initiative does not seem to be a big deal. Tens of similar initiatives were announced by developing countries in the three decades after the announcement of the EC. However, none ever took of the ground. Dismissing this failure as an exclusive disease of Africa and Latin America is simply too heroic. In spite of the pro-free trade position taken by all governments in APEC, stark differences exist as to the process of how to get to there. Any APEC design which is not sensitive to these differences is likely to be fated like a straw fire.

US-Japan and China Relations in the Asia Pacific*

Jusuf Wanandi

Introduction

THE region, while thriving and stable in the near future, except for the crisis on the Korean Peninsula, due to North Korean intransigence and sense of isolation, is still full of uncertainties in the longer term. One of the main uncertainties is the new equilibrium among the great powers, namely the US, Japan, China and Russia.

Most important among them is the future of the triangular relations between the US, Japan and China. While Russia is an important great country, for the time being she will be preoccupied with internal problems and developments and with her relations with the former co-states in the USSR. She focuses mostly on her European part where most of her population resides and where her indus-

tries are located. While Russia should be engaged in connection to her role in non-proliferation and arms control, she still needs a lot more economic involvement to have a real impact and influence on the Asia Pacific scene.

The most important question to be asked for the future of the Asia Pacific is whether history is going to repeat itself after Pax Americana is over for the region, after having kept stability, peace and development to most countries in the region for the last 50 years.

First is the fact that while the US is and will continue to be a dominant factor to the region for the foreseeable future, politically, economically as well as security wise, she is not going to play the benevolent hegemon forever. This is due to the limitations and constraints put to her by public opinion and the American people, which in a democracy is just not willing to accept the burden without any real and immediate benefit for themselves.

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Thus, that after being benign and altruistic as a superpower for the last 40 years or so after World War II, the US is becoming more "normal" and "self-interested", and therefore her leadership will also be less accepted by the region. Because in the end, leadership means sacrifices, and a reduced willingness to do so will make its leadership also less acceptable to others in the region.

This does not mean, however, that the US will no longer have a military presence in the region. The real question for the region is what Japan's and China's future role will be.

Going back to history, the possibilities are: either Japan will become a hegemon such as in pre-World War II or China will again become the dominant power in the region as in the era pre-western domination of China which lasted until the early 19th century. Another possible alternative which does not depend on history, but is forward-looking and involves new ideas and constructions which take into account economic integration and the development of close co-operations among countries in the region. This alternative offers a more peaceful scenario.

Currently there are efforts to establish new regional institutions, which are multilateral in nature, and are based on cooperative security concepts, which include comprehensive, common, and collective security elements. These will bring about a new alternative for a stable, peaceful and dynamic region in the Asia Pacific.

In the longer term only a multilateral system promises to produce peace, order and security as well as dynamism and development because democracies will not accept

sacrifices and have the political will to become a global policeman. Since the UN system is now the only existing multilateral structure, however full of imperfections, it is imperative to make it work by supporting it and improving it for the future. Regional initiatives and institutions are important to support this multilateral system.

The US Role in the Asia Pacific

The US is going to stay in the region, due to political, economic and security reasons. The problem might be that she has to adjust her presence in relations to her own domestic developments and changes in the Asia Pacific region.

She is a Pacific, as well as an Atlantic power and therefore, she is going to be part of the Asia Pacific region. She also is the most powerful nation in political, economic and military terms and therefore, her presence will be quite formidable.

Her military presence will not be the same as during the Cold War, because the rationale for that has gone by, and other reasons have to be found to keep a certain military presence in the Western Pacific for the future. Her presence today is mainly due to the problems and threat on the Korean Peninsula by North Korea. Whether the role of an arbiter for peace, stability and development in the region is an adequate enough reason or not for a future presence has yet to be seen. Here, burdensharing and a regional multilateral effort for security dialogues and cooperation as part of a cooperative security effort might be another important reason to convince the US body politic about this need. This type of a presence, which is aimed

at keeping a healthy equilibrium among the great powers and preventing a hegemon to dominate the region, remains one of the US role in the Asia Pacific region, particularly in East Asia, before World War II.

One difference now, which is a good thing, is the fact that the US has become more dependent on foreign trade than ever, especially in the creation of employment. Around twenty per cent of her labour force now is dependent on foreign trade, compared with five per cent about twenty years ago.

This means that she is now more dependent on her international trade and therefore, less inclined to become again isolationist, although a certain degree of inward-looking among her populace always creates the impetus to such thinking. This now takes the form of "neo-mercantilist" policies that the Clinton Administration has adopted to try to open other markets in an aggressive fashion. This also means that other countries, especially in East Asia, have to open their markets to the US in accordance with international rules, and to encourage the US to increase her economic presence in the region by providing a level playing field for US private sector as well as regional and domestic entrepreneurs.

It is always true that the flag will follow the economic interest. Politically the US has been in the best position to have a certain influence in the region, partly due to her economic and military presence (*Pax Americana*), but also due to her "soft-power" capabilities, namely her influence and to a certain extent her diplomacy, cultural and educational facilities and centres, excellence in technology and science, transportation and telecommunication, and last but not

least information technology, including its softwares.

But that "dominance" can only be maintained in the future if she is willing to have a more balanced foreign policy between the moralistic inclinations of the body politic and hard-nosed realistic national interests, where human rights and democracy are only one part of a foreign policy which also should include economic interest, strategic and geo-political requirements, historical relations and other imperatives.

Second, she also should be willing to be more multilaterist and ceased being so much of a unilaterist. The world has changed, her power is also being limited by others, especially in the economic and political field. East Asia is one example where there is a renaissance of self-confidence, trust in its own capabilities and values and therefore, more assertive and less willing to be simply placed on the receiving end, even from the USA.

In the end the USA also has to rely on multilateral bodies, including the United Nations (UN), to manage the new world order in the future. A multilateral approach in the regional context should also be seen as part of global developments and attitudes, where problems and tensions should be solved together and in the multilateral sense, be it in the economic field (WTO - World Trade Organisation or APEC - Asia Pacific Economic Cooperation) or in the security field (UN, ARF - ASEAN Regional Forum). While this challenge for the short and medium term is very large for any US administration and the US Congress to implement, as has been shown in the US willingness to participate in UN peace-keeping and peace-

making efforts after the debacle of her involvement in Somalia, Haiti and to a certain extent in Bosnia, in the longer term this multilateral approach will be acceptable for any democracy and their public opinion in keeping order and stability in the world.

One important aspect of being multilateralist is a willingness to listen to others and to adjust to the other parties' style and values. In East Asia, the style of the Clinton Administration which is confrontational, both in the economic and political field (human rights or labour rights) will not be conducive to the development of a longer term friendly relationship. Even in the case of Japan, it can be argued that while "*gaitsu*" can and still plays a role that is welcomed by the bureaucrats, who for the time being are still influential in the decision-making process domestically, in the longer term this will create resentment and enmity, affecting the alliance relationship that is so vital for the region.

Japan's Role in the Asia Pacific Region

With the new coalition under PM Hosokawa taking over in Japan, a new sense of credibility and trust have been created in the region towards Japan. This is most obvious with regard to South Korea, who is key to accept Japan's leadership in the region.

This does not mean that Japan will be immediately ready for a leadership role, due to her domestic political developments and re-alignments among the political parties. But this gives at least the chance to Japan to become a "normal country" in the sense of

Ichiro Ozawa, and be acceptable in the region.

Although these new developments will bring about a change in the attitude of Japan towards the region, due to lesser feeling of guilt and remorse, and therefore possibly becomes more assertive, Japan's leadership is an important factor for the stability of the region in the future. This leadership should not be confined only to the economic sphere, but should also include the political and to a certain extent the security field. The increased role in the security field will consist of strengthening her own self defence as well as a PKO (peace-keeping operations) role in the context of cooperative security.

How Japan is going to implement this, however, is crucial to her acceptance in the region. In this respect, a step by step approach and intensive consultations with the regional countries are a *conditio sine qua non*. For this purpose multilateral region-wide institutions such as PECC and APEC on the economic side and ARF and CSCAP on the political-security side are crucial for Japan.

In the end Japan has to balance her relationship between the region as her natural geopolitical environment and her global role commensurate with its stature as the second most powerful economy. Such regional institutions will assist Japan in finding an acceptable leadership role in the future.

In this regional context her relations and alliance with the US are still vital, and her cooperation and partnership with ASEAN are important. Equally important is a normal and friendly relationship with Korea and China.

Besides that, the internal development of Japan, economically and politically, is crucial for Japan's role in the future. The region hopes that those changes will make Japan more outward looking, develops greater empathy towards others and will be more willing to make sacrifices as a leader should be.

China's Role in the Region

China is considered by the region as an emerging great power. She is still in the process of transition because she is still in the process of generational and leadership change.

In international relations she would like to have a peaceful and friendly relations especially in the region, in order to be able to catch up in her economic development. China has just returned to the mainstream of international relations over the last 15 years, following a period of revolutionary fervour for 40 years (or 150 years, since the Opium War, depending on how far one's historical perspective is).

Because she has been isolated for so long, her idea about international relations and sovereignty is still based on a balance of power concept from the 19th century and an absolute sovereignty that is no more relevant in the 1990s. This is the reason why the East Asian region would like to involve her in a variety of regional structures, both in the economic field (PECC and APEC) as well as in the political-security field (CSCAP and ARF).

There is now, and for the next ten years, a window of opportunity to involve China as

a "conventional great power" which abides by the international and regional rules of the game. The international community should recognise that China is doing the world and the region a great service by keeping 22 per cent of humanity, namely her own 1.2 billion people employed, fed and clothed.

It should also be acknowledged that a certain political stability and economic development have been maintained in China which have a positive effect on regional peace, development and dynamism. Limitations and mistakes on China's side should be conveyed to her as a friend, and with frankness, because the region has a stake in a peaceful and dynamic China. Only if China takes criticism and advice with an open mind can she be successful as a regional and global leader in the longer future. Because only then will the leadership of China be accepted by the region and the international community. This acceptance is crucial for China's development and growth, as she needs foreign capital, technology and markets to do so.

The region in particular and the world at large, the western countries included, has shown a goodwill towards China. Although it should be recognised and appreciated that China, due to her historical burden of having to face imperialism and colonialism since the mid of the 19th century by the West and Japan, still harbours suspicions and prejudices towards them. The way the western countries criticise China is sometimes felt unpleasant, but at the end that is the nature of international relations at the end of the 20th century. This also means that China has to participate with other East Asian countries and developing nations to be more proactive in formulating a new international

system of relations which should also uphold democratic principles.

The principle of intervention into another country's domestic problems are being developed and formulated due to the recognition of limited sovereignty of the state and because groups in society and even individuals are now recognised as subjects of international relations besides the states themselves. Here human rights and democracy are coming to the fore as reasons for intervention in cases of gross violations of human rights. This principle of intervention has yet to be agreed upon and formulated into international law. Therefore, economic or other sanctions, cannot be applied unilaterally. Only diplomatic demarche's rallying of public opinion and sanctions through international multilateral bodies such as the UN will be acceptable. Here, China's role and active participation is also important.

On human rights it has to be recognised by East Asian countries that the core rights or the so-called non-derogatory rights, namely rights to live, against torture or slavery, basic human needs, due process of law, good governance and the right of religious freedom, are absolute and could not be ignored. Other rights, such as the kind of political system to be established and the implementation of some related civil and political rights are more relative and will depend on values, culture, history and stages of developments. Here, others cannot intervene lightly or apply sanctions unilaterally.

If the above can be agreed upon and worked out together between the developed and developing countries, then there is a chance that they could cooperate in the implementation of human rights and confron-

tation can be avoided. Therefore, the confusion of human rights with democracy caused by the Clinton Administration is not helping the implementation of human rights.

Another issue that China also has to pay attention to is her claims to her "irredentist" part of China. It is recognised by the region that China is very inflexible on her territorial claims, especially on Taiwan. But at the same time expectations are also very high that China will attempt to resolve those claims in a peaceful way.

In the case of Taiwan it is also recognised that the democratisation process in Taiwan has created pressures that could no longer be controlled by the KMT government. Such pressures include the movement by the DPP towards Taiwan's independence or the adoption of a two-China policy. But only a more farsighted policy on China's part can help lessen those pressures in the future. In this regard, other countries in the region can support an atmosphere in which both parts of China will be able to agree on how to be reunified.

On the South China Sea, especially the Spratly's, it is very important in China's relations with ASEAN in the future that a peaceful resolution can be agreed upon and be implemented by China. The whole trust towards China on the part of ASEAN will be damaged if China is ever going to use force in the solution of her claims. ASEAN is very serious about the Manila Declaration on the South China Sea issue, which stipulates the above principles. More positive participation of China in the South China Sea Workshop series organised by Indonesia and ASEAN is a very important contribution and CBM on the part of China towards ASEAN and the entire region of East Asia.

This "second track" effort should be endorsed politically by the ARF meeting in Bangkok, until the time comes when an official negotiating team can take over and decide about cooperation in the various fields concerning the South China Sea. In the meantime, it has to be recognised that the talks have been conducive to laying down a basis for future relations between South East Asia and China, where trust, cooperation and peaceful resolution of potential conflicts are most encouraging. This has been shown in the acceptance of China of the Manila Declaration, albeit hesitatingly at the beginning, and the cooperation established on science and technology as well as on security issues. That is the reason why China immediately accepted ASEAN's invitation to join the ARF talks. It might even have a beneficial indirect effect on normalisation of relations between China and Vietnam, since Vietnam shares some of the worries South East Asian nations have towards China.

As to her defence expenditures and strategic deployment of naval and airpower, China as a great power is expected by the region to be more transparent and to participate fully in CBM's efforts on the ARF. It is also recognised that upgrading her defence capabilities commensurate with her power status is not a problem as long as its purpose and objectives are clear to her neighbours.

As far as her domestic developments are concerned, the region hopes that China will do well, especially in dealing with generational and leadership changes. It will be more assuring to the regional countries if these processes become more transparent and be understood by them. Because China is a great country and whatever China is

doing will have very important implications for the region, it is understandable that regional countries follow China's development very diligently. The better China is able to explain to the region the better it should be for the relationship in the future and the acceptance of China's leadership by the region.

The Triangular Relationship and Its Impact on the Region

US-Japan Alliance

It has been recognised by the whole region that the US-Japan alliance is vital to its stability, peace and development.

Economically, the US and Japan are the two main sources for capital and technology, and main markets for their manufactured goods as well as energy and resources.

Militarily, the alliance provides a guarantee that Japan will stay non-nuclear and will only develop conventional capabilities for its own defence. This is reassuring for Japan's public opinion and the region as well. This does not mean that gradually a security role for Japan is unacceptable. But it will be much easier if that role is part of the burdensharing in the alliance.

Politically, more can be done by the two countries, not only in the region but also globally, in establishing a new global order in the wake of the end of the Cold War.

In the short term this relation is facing pressures and tensions due to the trade imbalance (about 50 billion US Dollars for 1993), that is politically unacceptable to the US, especially the Clinton Administration.

Although this problem is not going to develop into a trade war, because the integration of the two economies has been so enormous, and therefore one cannot expect that retaliation towards Japan if not measured will have a negative impact on the US economy itself. The economic relations and the tensions between the two are no more a *zero sum game*.

The problem lies in the realm of political economy if tensions between the two will be maintained for a longer term, because then public opinion on both sides will erode the goodwill that has been established. Without any common enemy, as during the Cold War period, it is very difficult to convince US public opinion that a forward deployment presence of the US is in the US national interest. To make this effective, the bases in Japan are crucial. The task of convincing the US public is more difficult if trade tensions are high, visible and lasting for a longer period than usual.

This danger has been made more pronounced by the Clinton Administration's attitudes, philosophy and policies towards Japan. Since the Administration's acceptance of the so-called "revisionist" policies towards Japan, she really thinks that Japan is a different country, with a different kind of capitalism that has to be treated also differently, namely by setting numerical targets in opening up the Japanese market. This is not acceptable to Japan because it smacks of managed trade and unilateralism that makes a mockery of the recently completed Uruguay Round.

On the Japanese side, public resentment towards US pressures are building up, albeit slowly, while the threat of Russia, although still being considered, has declined in impor-

tance. Problems with China will emerge in the future, but this is more long term, due to political, geographic, cultural and economic factors. The compounding factor here is that Japan is changing politically, and these changes will be for the good of the region. However, in the short and medium term this will create more complications to the US-Japan relations because the Japanese Government will still be weak in the medium term and a new political re-alignment is expected. Before this will be realised, the Japanese Government cannot give as much as what the US is pressing for. So, it is in the short and medium term where the danger lies, and which can have an effect for the longer term. This is especially true if the Clinton Administration overlooks the fact of changes that are taking place in the Japanese political system due to a "revisionist" view of Japan, and "mistrust" among the negotiators towards each other.

Therefore, both sides have to do something about this impasse. On the US side, its saving and investment ratios have to increase to reduce the trade imbalances, and trust has to be created in the negotiations. In addition, unilateral actions have to be abolished or limited, and some leeway has to be given to Japan to answer the problem of imbalance through their own policies of liberalisation and governments procurements.

On the other side, Japan has to get her act together and put up a package to stimulate the economy and a series of unilateral liberalisation to open up her market, while government procurement should be open to others. The private sector can support the government's efforts by setting a specific target to open the market in their own field which is not legally binding; they can also assist in the efforts to accelerate political

changes which will be good for Japan and for the outside parties and help to explain it to the outside world.

Regional institution such as APEC can in the future be helpful by multilateralising and resolving bilateral conflicts and tensions.

However, the region is still ambivalent about this, because on the one hand it is concerned that it may become the next target of US unilateralism, but on the other it also knows that only the US can pry open the Japanese market which will be beneficial to countries in the region as well. Therefore, there is no great deal of public reactions in the region. But it is good to let both parties know that the region has an interest in the resolution of the US-Japan trade conflict immediately, for it might deteriorate the alliance that is so vital to the region. What might be more dangerous in the future for the relationship is Japan's unpreparedness to play a role commensurate with its power in times of crisis, such as the Gulf War. One potential problem is an explosive crisis on the Korean Peninsula, in which Japan is asked to provide more than a financial commitment.

Political change in Japan will alleviate this possible crisis, although this change proceeds awfully slowly.

US-China Relations

US-China relations will be as important as US-Japan relations in the future. This is due to the fact that China looms very large in the region. Her future role will be vital to peace, stability and development of the region, due to her size, economic potentials, a

vision of historical destiny, political will and potential military powers and capabilities.

While the region is trying hard to engage China in a lot of activities, with the intention of making her an involved and responsible member of the region as a potential "conventional power" for the future, the US is still struggling to establish a balanced policy toward China after the Tien An Men incident.

This is partly due to a swing in US public opinion from being very supportive of China before into a tirade of anti China feelings due to the incident. While the Bush Administration tried to contain and balance this emotional outburst, based on a certain world view and a moral-based foreign policy, the Clinton Administration is not able to balance its foreign policy in general, and in particular toward the region, especially in regard to human rights abuses in China.

Instead of being part of a range of US interests in her relations to China, human rights have become the main focus, and sometimes the only focus of US foreign policy toward China. There are other important reasons for US policy towards China than human rights; these include non-proliferation of mass destructive weapons, especially in the case of North Korea; the interest of finding together a new equilibrium for the Asia Pacific in the future that will be the basis for sustaining peace, stability and development of the region; and keeping the economic vibrancy of the region, where the US is the greatest economic power and China is the last frontier for regional and world economic growth and development. These all do not mean that the US cannot express its concerns on human rights, but this should be done either by bringing them to

multilateral organisations such as UN Human Rights Commission or by asking the Human Rights Commissioner to give its good services to the Chinese. Employing economic sanctions, such as removing MFN status to China, is not the right policy and has not been supported by the region, especially not if the policy is publicly implemented and applied to a big country in the region where form or "face" is as important as content (or reality) and where face is an important part of authority and legitimacy.

Hopefully the Clinton Administration, after the unsuccessful visit of Secretary Warren Christopher, will see the limitations of its policy towards China and will try to broaden it as well as to find new approaches in implementing its legitimate concern on human rights. Conditionality and economic sanctions are in most cases not only ineffective but could be, as in the Chinese case, counter-productive.

China, who also has an interest in maintaining good relations with the US for economic and security reasons, and has an interest in keeping the US in the Western Pacific strategically, should also take steps to improve human rights in China, especially on visits of their political prisoners by the ICRC (International Commission of the Red Cross) and allowing a family reunion of some of the Chinese in exile.

Until now, the picture of US-China relations is still unclear, although in the end both governments will be able to find a compromise that will be acceptable to both sides, including the US public especially Congress, because there are too many interests of both countries and the region at stake to allow it to go out of hand.

Because a confrontation between the two giants will be very detrimental to future peace, stability and vibrancy of the region, and will prevent a new international order from being established global-wide. China's role through her permanent membership of the Security Council of the UN and in other fields like non-proliferation and arms control is key to security and order in the future. The region needs to talk to both sides and make an effort to overcome this conflict. That is why ASEAN's effort to establish the ARF is important for the region, as it will be able to support constructive regional involvements in critical bilateral relations and tensions that could be damaging to peace and stability of the region as a whole.

Japan-China Relations

Both sides have recognised that their bilateral relations have never been so good as they are today since the establishment of diplomatic relations. Trade relations are expanding very fast and Japan is taking over the US role as China's number one trading partner. Japanese investments in China have increased dramatically after slowly overcoming some inhibitions. ODA, although not yet promised for the period 1996-2000, will always be substantial and is expected to be maintained at about 1/3 of Japanese overall ODA. Politically the relationship is excellent, with Japan now being closer to China than the US, especially due to its different approach on human rights. The visit by the Japanese Emperor and Empress has been successful, and has overcome the main inhibitions due to historical burden of World War II.

Strategically, China is willing to support

the international efforts towards nuclear non-proliferation of North Korea, although not in public and not as tough as Japan and the South Koreans would like to see happening.

There are still questions on the part of Japan towards China. One question is with regard to the non-transparency of China's defence build-up. The most important question is whether China will become a conventional or revolutionary great power. The answer to this question will depend on whether China-Japan relations will be friendly or confrontative. This relationship will be very decisive for the stability and development of the region in the future.

Naturally, and historically, these two great regional powers have always been competitive, and to a certain extent this will continue in the future. But dependent on whether China's development and policies will make it a part of the region, this competition will also be balanced by cooperation and friendship. This relationship will influence the future of the region as much as is the balanced involvement of the US in the region.

Conclusions

It is obvious from the above analysis that peace, stability and developments as well as the vibrancy and dynamism of the Asia Pacific region is dependent on the three countries and their relations in the future.

The best outcome for the region will be friendly and normal relations among the three great powers. The US-Japan alliance, should not become a common front to isolate China. At the same time Japan and China should not become a condominium of East Asia, or gang up against the US.

Since US-China and Japan-China relations are still developing, there is a need for a regional effort and institution to stabilise them because they are so crucial to the region.

Here lies ASEAN's role and initiative, because it provides a model of confidence building measures *par excellence*. ASEAN has shown its credibility as a regional effort to promote regional peace, stability and development. Therefore, only ASEAN can move this relations into a regional context, and to promote regional dialogue and co-operation in the political security field, which is crucial to the establishment of stable relations between the three great powers.

The ARF is the initial vehicle to establish a regional institution to cope with political security matters for the whole region. ARF also includes Russia who is an important great power in the political security field in the region.

At the same time the smaller and medium powers in the region, namely ASEAN members, Korea, Vietnam, Laos, PNG and later Cambodia and Myanmar also have a role to play to determine the fate of the region.

Document

APEC ECONOMIC LEADERS' DECLARATION OF COMMON RESOLVE

**BOGOR, INDONESIA
NOVEMBER 15, 1994**

1. We, the economic leaders of APEC, came together in Bogor, Indonesia today to chart the future course of our economic cooperation which will enhance the prospects of an accelerated, balanced and equitable economic growth not only in the Asia Pacific region but throughout the world as well.
2. A year ago on Blake Island in Seattle, USA, we recognized that our diverse economies are becoming more interdependent and are moving toward a community of Asia Pacific economies. We have issued a vision statement in which we pledged:
 - to find cooperative solutions to the challenges of our rapidly changing regional and global economy;
 - to support an expanding world economy and an open multilateral trading system;
 - to continue to reduce barriers to trade and investment to enable goods, services and capital to flow freely among our economies;
 - to ensure that our people share the benefits of economic growth, improve education and training, link our economies through advances in telecommunication and transportation, and use our resources sustainably.
3. We set our vision for the community of Asia Pacific economies based on a recognition of the growing interdependence of our economically diverse region, which comprises developed, newly industrializing and developing economies. The Asia Pacific industrialized economies will provide opportunities for developing economies to increase further their economic growth and their level of development. At the same time developing economies will strive to maintain high growth rates with the aim of attaining the level of prosperity now enjoyed by the newly industrializing economies. The approach will be coherent and comprehensive, embracing the three pillars of sustainable growth, equitable development and national stability. The narrowing gap in the stages of development among the Asia Pacific economies will benefit all members and promote the attainment of Asia Pacific economic progress as a whole.
4. As we approach the twenty-first century, APEC needs to reinforce economic cooperation in the Asia Pacific region on the basis of equal partnership, shared responsibility, mutual respect, common interest, and common benefit, with the objective of APEC leading the way in:
 - strengthening the open multilateral trading system;
 - enhancing trade and investment liberalization in Asia Pacific; and
 - intensifying Asia Pacific development cooperation.
5. As the foundation of our market-driven economic growth has been the open multilateral trading system, it is fitting that APEC builds on the momentum generated by the outcome of the Uruguay Round of Multilateral Trade Negotiations and takes the lead in strengthening the open multilateral trading system.

We are pleased to note the significant contribution APEC made in bringing about a successful conclusion of the Uruguay Round. We agree to carry out our Uruguay Round commitments fully and without delay and call on all participants in the Uruguay Round to do the same.

To strengthen the open multilateral trading system we decide to accelerate the implementation of our Uruguay Round commitments and to undertake work aimed at deepening and broadening the outcome of the Uruguay Round. We also agree to commit ourselves to our continuing process of unilateral trade and investment liberalization. As evidence of our commitment to the open multilateral trading system we further agree to a standstill under which we will endeavour to refrain from using measures which would have the effect of increasing levels of protection.

We call for the successful launching of the World Trade Organization (WTO). Full and active participation in and support of the WTO by all APEC economies is key to our ability to lead the way in strengthening the multilateral trading system. We call on all non-APEC members of the WTO to work together with APEC economies toward further multilateral liberalization.

- 6. With respect to our objective of enhancing trade and investment in Asia Pacific, we agree to adopt the long-term goal of free and open trade and investment in Asia Pacific. This goal will be pursued promptly by further reducing barriers to trade and investment and by promoting the free flow of goods, services and capital among our economies. We will achieve this goal in a GATT-consistent manner and believe our actions will be a powerful impetus for further liberalization at the multilateral level to which we remain fully committed.

We further agree to announce our commitment to complete the achievement of our goal of free and open trade and investment in Asia Pacific no later than the year 2020. The pace of implementation will take into account the differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020.

We wish to emphasize our strong opposition to the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade. We are determined to pursue free and open trade and investment in Asia Pacific in a manner that will encourage and strengthen trade and investment liberalization in the world as a whole. Thus, the outcome of trade and investment liberalization in Asia Pacific will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies. In this respect we will give particular attention in our trade with non APEC developing countries to ensure that they will also benefit from our trade and investment liberalization, in conformity with GATT/WTO provisions.

- 7. To complement and support this substantial process of liberalization we decide to expand and accelerate APEC's trade and investment facilitation programs. This will promote further the flow of goods, services and capital among APEC economies by eliminating administrative and other impediments to trade and investment.

We emphasize the importance of trade facilitation because trade liberalization efforts alone are insufficient to generate trade expansion. Efforts at facilitating trade are important if the benefits of trade are to be truly enjoyed by both business and consumers. Trade facilitation has also a pertinent role in furthering our goal of achieving the fullest liberalization within the global context.

In particular we ask our ministers and officials to submit proposals on APEC arrangements on customs, standards, investment principles and administrative barriers to market access.

To facilitate regional investment flows and to strengthen APEC's dialogue on economic policy issues, we agree to continue the valuable consultations on economic growth strategies, regional capital flows and other macro-economic issues.

- 8. Our objective to intensify development cooperation among the community of Asia Pacific economies will enable us to develop more effectively the human and natural resources of the Asia Pacific region so as to attain

sustainable growth and equitable development of APEC economies, while reducing economic disparities among them, and improving the economic and social well-being of our peoples. Such efforts will also facilitate the growth of trade and investment in the Asia Pacific region.

Cooperative programs in this area cover expanded human resource development (such as education and training and especially improving management and technical skills), the development of APEC study centres, cooperation in science and technology (including technology transfer), measures aimed at promoting small and medium scale enterprises and steps to improve economic infrastructure, such as energy, transportation, information, telecommunications and tourism. Effective cooperation will also be developed on environmental issues, with the aim of contributing to sustainable development.

Economic growth and development of the Asia Pacific region has mainly been market-driven, based on the growing interlinkages between our business sectors in the region to support Asia Pacific economic cooperation. Recognizing the role of the business sector in economic development, we agree to integrate the business sector in our programs and to create an ongoing mechanism for that purpose.

9. In order to facilitate and accelerate our cooperation, we agree that APEC economies that are ready to initiate and implement a cooperative arrangement may proceed to do so while those that are not yet ready to participate may join at a later date.

Trade and other economic disputes among APEC economies have negative implications for the implementation of agreed cooperative arrangements as well as for the spirit of cooperation. To assist in resolving such disputes and in avoiding its recurrence, we agree to examine the possibility of a voluntary consultative dispute mediation service, to supplement the WTO dispute settlement mechanism, which should continue to be the primary channel for resolving disputes.

10. Our goal is an ambitious one. But we are determined to demonstrate APEC's leadership in fostering further global trade and investment liberalization. Our goal entails a multiple year effort. We will start our concerted liberalization process from the very date of this statement.

We direct our ministers and officials to immediately begin preparing detailed proposals for implementing our present decisions. The proposals are to be submitted soon to the APEC economic leaders for their consideration and subsequent decisions. Such proposals should also address all impediments to achieving our goal. We ask ministers and officials to give serious consideration in their deliberations to the important recommendations contained in the reports of the Eminent Persons Group and the Pacific Business Forum.

11. We express our appreciation for the important and thoughtful recommendations contained in the reports of the Eminent Persons Groups and the Pacific Business Forum. The reports will be used as valuable points of reference in formulating policies in the cooperative framework of the community of Asia Pacific economies. We agree to ask the two groups to continue with their activities to provide the APEC economic leaders with assessments of the progress of APEC and further recommendations for stepping up our cooperation.

We also ask the Eminent Persons Group and the Pacific Business Forum to review the interrelationships between APEC and the existing sub-regional arrangements (AFTA, ANZERTA and NAFTA) and to examine possible options to prevent obstacles to each other and to promote consistency in their relations.

APEC Economic Leaders
Bogor, Indonesia
November 15, 1994

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